

Department of Legislative Services
Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1005 (Delegate Fisher, *et al.*)
Ways and Means

Income Tax - Tips or Gratuities - Subtraction Modification (No Income Taxes on
Tips Act)

This bill allows a subtraction modification against the personal income tax for any compensation received in the form of a tip or gratuity for employment in a food service facility; employment in a business licensed for on-sale consumption of alcoholic beverages; employment in a hotel; providing passenger-for-hire services; or providing taxicab services. **The bill takes effect July 1, 2025, and applies to tax year 2025 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by an indeterminate but potentially significant amount annually beginning in FY 2026. The Comptroller's Office can implement the bill with existing budgeted resources.

Local Effect: Local income tax revenues decrease by an indeterminate but potentially significant amount annually beginning in FY 2026. Expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law: Tips, including cash tips that are not reported to an employer, are taxable as income under the federal and State income tax and are generally considered wages for federal payroll tax purposes. Tips are also considered earned income for purposes of the federal and Maryland earned income tax credits.

State/Local Revenues: General fund revenues and local income tax revenues decrease by an indeterminate but potentially significant amount annually beginning in fiscal 2026 due to subtraction modifications claimed against the personal income tax. Due to data limitations, the precise effect on State and local revenues cannot be reliably estimated at this time. For context, according to national W-2 statistics published by the Internal Revenue Service, tips reported on tax year 2018 W-2s totaled \$38.3 billion.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): Comptroller's Office; Internal Revenue Service; Department of Legislative Services

Fiscal Note History: First Reader - February 20, 2025
caw/hlb

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