



Bill Analysis

Author: Ochoa Bogh, et al.

Sponsor:

Bill Number: SB 984

Related Bills: See Legislative
History

Introduced: February 5, 2026

SUBJECT

Qualified Tips Deduction

SUMMARY

This bill would, under the Personal Income Tax Law (PITL), conform, with modification, to the federal law that allows a deduction for qualified tips for taxable years beginning on or after January 1, 2026, and before January 1, 2029.

RECOMMENDATION

No position—The three-member Franchise Tax Board has not formally voted or taken a position on this bill.

SUMMARY OF AMENDMENTS

Not applicable.

REASON FOR THE BILL

The reason for the bill is to help workers retain more of their earnings.

ANALYSIS

This bill would, under the PITL, for taxable years beginning on or after January 1, 2026, and before January 1, 2029, conform, with modification, to the federal provision relating to the deduction for tips that would allow an itemized deduction up to \$25,000 for qualified tips received during the taxable year. Qualified tips are tips received by an employee in an occupation where it is customary to receive tips on a regular basis. The qualified tips deduction would be further limited by a taxpayer's modified adjusted gross income (MAGI) if such income exceeds a certain income threshold.

For purposes of complying with Revenue and Taxation Code (RTC) section 41, this bill would require the Franchise Tax Board (FTB) to provide a report including the number of taxpayers deducting tips from income and the average dollar value of the amount of the deduction to the Legislature no later than December 1, 2029, to the extent that data is available. The RTC section 41 reporting requirement would be treated as an exception to the general prohibition against disclosure of confidential taxpayer information.

Effective/Operative Date

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2026, and before January 1, 2029.

Federal/State Law

Federal Law

Federal law allows a deduction up to \$25,000 for qualified tips received during the taxable year beginning after December 31, 2024, and before January 1, 2029. The deduction is reduced by \$100 for each \$1,000 by which the taxpayer's MAGI exceeds \$150,000 (\$300,000 for married filing joint). This deduction is available as an itemized deduction or in addition to the standard deduction for taxpayers who do not itemize.

"Qualified tips" are defined as 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, in an occupation that received tips on a customary and regular basis before December 31, 2024. Qualified tips do not include amounts that are not provided voluntarily, not in a specified service trade or business, or excluded under guidance as established by the Secretary.

Federal law requires a valid social security number (SSN) to be provided on the return to claim the deduction. An omission of the correct SSN on the return is treated as a math or clerical error. Additionally, in the case of a married individual, the taxpayer and the taxpayer's spouse must file a joint return to claim the deduction.

State Law

There is no comparable deduction for qualified tips in state law.

Implementation Considerations

None noted.

Technical Considerations

The FTB has identified the following considerations and is available to work with the author's office to resolve these and other considerations that may be identified.

For consistency in terminology, in Section 17201.8 (b)(2)(A), replace, "...the average dollar value of those amounts deducted." with "...the average dollar amount of the amounts deducted."

In Section 17201.8 (a), the phrase "except that in subsection (g) thereof the term "secretary" shall be replaced by the term "Franchise Tax Board." can be removed because Section 17024.5 (h)(7) accounts for differences in terminology. Additionally, FTB has general authority to prescribe regulations. As a result, conformity to IRC section 224, subsection (g) is not necessary.

California conforms to the Internal Revenue Code (IRC) as of January 1, 2025. However, the provisions allowing a deduction for qualified tips were added to IRC section 224 by Section 70201 of Public Law 119-21 on July 4, 2025. For consistency and clarity, Section 17201.8(a) should be replaced with "For taxable years beginning on or after January 1, 2026, and before January 1, 2029, Section 224 of the Internal Revenue Code as it read on January 1, 2026, relating to qualified tips, shall apply, except as otherwise provided."

Policy Considerations

The federal law requires a taxpayer to include a valid SSN on their income tax return to claim the deduction. However, a California taxpayer may not have a valid SSN and instead may have an Individual Taxpayer Identification Number (ITIN). This bill would conform to IRC section 224 and would require a taxpayer to have a valid SSN to claim the deduction. If this is contrary to the author's intent, the author may wish to amend the bill.

Federal law allows a deduction for qualified tips to a taxpayer regardless of whether the taxpayer elects to use the standard deduction or itemize their deductions. This bill would allow a deduction for qualified tips to a taxpayer only if the taxpayer itemized their deductions. If this is contrary to the author's intent, the author may wish to amend the bill.

This bill would require FTB to report on the performance of the deduction allowed by this bill on or before December 1, 2029. For a report that contains complete information for the 2028 taxable year, it is recommended that the reporting due date be extended to July of 2030. If the reporting due date remains unchanged, the report would include the information available as of six months prior to the report due date, which would exclude taxpayer information for those filing on extension.

LEGISLATIVE HISTORY

SB 711 (McNerney, Chapter 231, Statutes of 2025), under the PITL, the Administration of Franchise (AFITL), and Income Tax Law, and the Corporate Tax Law, amongst other provisions, changed the RTC's general "specified date" of conformity to the IRC from January 1, 2015, to January 1, 2025, for taxable years beginning on or after January 1, 2025, and generally conformed to the numerous changes to federal income tax laws during the ten-year period, except as otherwise provided. However, SB 711 did not include conformity to IRC section 224.

AB 1443 (Castillo, 2025/2026) would have, under the PITL, for taxable years beginning on or after January 1, 2026, and before January 1, 2031, treated tips as gifts that would have been excluded from gross income. Under the AFITL, this bill would have also excluded tips from supplemental wages subject to withholding for purposes of the wage withholding tables that are prepared by the FTB. Under the Unemployment Insurance Code (UIC) this bill would have excluded tips from wages for unemployment purposes. The bill would have also made changes to other related provisions. AB 1443 did not pass out of Assembly Revenue and Taxation Committee by the required deadline.

AB 1550 (Sanchez, 2025/2026) would, under the PITL, for taxable years beginning on or after January 1, 2026, and before January 1, 2029, conform, with modifications, to the federal law that allows a deduction for qualified tips and overtime compensation. AB 1550 is currently in the Assembly Committee process.

SB 17 (Ochoa Bogh, et al., 2025/2026), would have, under the PITL, for taxable years beginning on or after January 1, 2026, treated tips as gifts that would be excluded from gross income. Under the AFITL, this bill would have excluded tips from supplemental wages subject to withholding for purposes of the wage withholding tables that are prepared by the FTB. Under the UIC, this bill would have excluded tips from wages for unemployment purposes. The bill would have also made changes to other related provisions. SB 17 did not pass out of Assembly Revenue and Taxation Committee by the required deadline.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

FTB's costs to implement this bill have yet to be determined. As the bill moves through the legislative process, costs will be determined.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:
Assumed Enactment after June 30, 2026

(\$ in Millions)

Fiscal Year	Revenue
2026-2027	-\$600
2027-2028	-\$410
2028-2029	-\$200

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill or for the net final payment method of accrual.

Revenue Discussion

This estimate is based upon a proration of the Joint Committee on Taxation (JCT) federal tax expenditure estimate for deductions of tipped income. In July 2025, the JCT estimated the federal revenue impact of the tip income deduction to be \$10 billion in the 2025-26 fiscal year. The corresponding loss to California is estimated to be \$410 million in the 2026 tax year.

The tax year estimates are converted to fiscal year estimates and then rounded to arrive at the amounts reflected in the above table.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

To be determined.

ARGUMENTS

To be determined.

LEGISLATIVE CONTACT

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