

**Federal Update: P.L. 119-21  
Subtraction for Tip Income  
Individual Income Tax**

	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>
			(\$000s)	
General Fund	(\$62,000)	(\$64,000)	(\$67,900)	(\$69,900)

Assumed to be effective for tax years 2025 through 2028.

Federal Public Law 119-21 created a deduction for qualified tips reported by employers on the form W-2. A qualified tip is any cash tip received in an occupation that customarily and regularly received tips prior to calendar year 2025. The federal law also expands the FICA tip credit to include employers in certain beauty service businesses.

The deduction is effective for tax years 2025 through 2028 and is limited to \$25,000 per year. The deduction is reduced by \$100 for every \$1,000 of modified adjusted gross income that exceeds \$150,000 (\$300,000 for married joint filers). Taxpayers must file with a social security number to be eligible, and married taxpayers must file a joint return to claim the deduction. The deduction may be claimed whether the taxpayer itemizes deductions or claims the standard deduction.

The federal deduction does not affect adjusted gross income, the starting point for calculating Minnesota taxable income, and will not have an impact on Minnesota tax liability.

The proposal is to create a Minnesota subtraction equal to the federal deduction.

- The estimate is based on estimates prepared by the staff of the Joint Committee on Taxation, dated July 1, 2025. The JCT estimate includes the deduction for tips and the expanded tip credit on one line. The estimate was adjusted to remove the impact of the tip credit.
- The first fiscal year impact will depend on the timing of enactment. This estimate assumes that the proposal would be enacted before the tax year 2025 filing season begins. If it were enacted later than that, some or all of the fiscal year 2026 impact would shift into fiscal year 2027.

Minnesota Department of Revenue  
Tax Research Division  
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