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SB-17 Personal income taxes: deductions: tips. (2025-2026)

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AMENDED IN SENATE MAY 05, 2025

AMENDED IN SENATE APRIL 28, 2025

CALIFORNIA LEGISLATURE— 2025–2026 REGULAR SESSION

SENATE BILL

NO. 17

Introduced by Senators Ochoa Bogh, Grove, and Valladares
(Coauthors: Senators Hurtado and Seyarto)

December 02, 2024

An act to amend Section 17072 of, and to add and repeal Section 17211 of, the Revenue and Taxation Code, relating to taxation, to take effect immediately, tax levy.

LEGISLATIVE COUNSEL'S DIGEST

SB 17, as amended, Ochoa Bogh. Personal income taxes: deductions: tips.

The Personal Income Tax Law, in modified conformity with federal income tax laws, allows various deductions from gross income in calculating adjusted gross income.

This bill, for taxable years beginning on or after January 1, 2026, and before January 1, 2036, would allow a deduction in determining adjusted gross income for an amount equal to the qualified tips, as defined, received by a qualified taxpayer, as defined, during the taxable year, not to exceed \$20,000.

Existing law requires any bill authorizing a new tax expenditure to contain, among other things, specific goals that the tax expenditure will achieve, detailed performance indicators, and data collection requirements.

This bill also would include additional information required for any bill authorizing a new tax expenditure.

This bill would take effect immediately as a tax levy.

Vote: majority Appropriation: no Fiscal Committee: yes Local Program: no

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 17072 of the Revenue and Taxation Code is amended to read:

17072. (a) Section 62 of the Internal Revenue Code, relating to adjusted gross income defined, shall apply, except as otherwise provided.

(b) Section 62(a)(2)(D) of the Internal Revenue Code, relating to certain expenses of elementary and secondary school teachers, shall not apply.

(c) Section 62(a)(21) of the Internal Revenue Code, relating to attorneys fees relating to awards to whistleblowers, shall not apply.

(d) For taxable years beginning on or after January 1, 2026, and before January 1, 2036, Section 62(a) of the Internal Revenue Code, relating to the general rule, is modified to provide that the deduction under Section 17211 shall be allowed in determining adjusted gross income.

SEC. 2. Section 17211 is added to the Revenue and Taxation Code, to read:

17211. (a) For taxable years beginning on or after January 1, 2026, and before January 1, 2036, there shall be allowed a deduction from gross income in an amount equal to the qualified tips received by a qualified taxpayer during the taxable year, not to exceed twenty thousand dollars (\$20,000).

(b) For the purposes of this section, the following definitions shall apply:

(1) "Qualified taxpayer" means a taxpayer that satisfies all of the following:

(A) Works in an occupation in which the taxpayer regularly receives more than twenty dollars (\$20) per month in qualified tips.

(B) Does not currently hold a professional license issued by the Department of Consumer Affairs pursuant to the Business and Professions Code, except for a license issued by the State Board of Barbering and Cosmetology.

(C) Has adjusted gross income, without regard for the deduction provided by this section, not in excess of the following:

(i) In the case of a taxpayer who is a head of household, a surviving spouse, as defined in Section 17046, or a married couple filing a joint return, two hundred fifty thousand dollars (\$250,000).

(ii) In the case of any other individual, one hundred twenty-five thousand dollars (\$125,000).

(2) "Qualified tips" means tips or voluntary monetary contributions received by a qualified taxpayer from a guest, patron, or customer for services rendered to that guest, patron, or customer, and that the qualified taxpayer reports for purposes of Section ~~6503~~ 6053 of the Internal Revenue Code and the Federal Insurance Contributions Act (26 U.S.C. Sec. 3103 et seq.).

(c) A qualified taxpayer shall maintain records that are adequate to substantiate any deduction allowed under this section, and shall, upon request, provide such records to the Franchise Tax Board.

(d) (1) The Franchise Tax Board may adopt regulations necessary or appropriate to carry out the purposes of this section.

(2) The Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code) does not apply to any standard, criterion, procedure, determination, rule, notice, or guideline established or issued by the Franchise Tax Board pursuant to this section.

(e) (1) For purposes of complying with Section 41, the Legislature finds and declares as follows:

(A) The specific goal of the deduction provided by this section is to help struggling workers retain more of their earnings.

(B) The performance indicators for the Legislature to use in determining whether the deduction achieves its goal shall be the number of taxpayers deducting tips from income pursuant to this section, and the average dollar value of tips deducted from income.

(2) (A) The Franchise Tax Board, no later than December 1, 2036, shall submit a report to the Legislature, in compliance with Section 9795 of the Government Code, detailing the number of taxpayers deducting tips from income under this section and the average dollar value of tips deducted.

(B) The disclosure provisions of this paragraph shall be treated as an exception to Section 19542.

(f) This section shall remain in effect only until December 1, 2036, and as of that date is repealed.

SEC. 3. This act provides for a tax levy within the meaning of Article IV of the California Constitution and shall go into immediate effect.