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How “No Tax on Tips/OT” Will Work!

U.S. Treasury/IRS Releases Driver Definitions



Pictured above: *Scott Bessent, U.S. Treasury Secretary*

Signed into law on July 4, 2025, President Trump’s “One Big Beautiful Bill Act” (OBBBA) introduced sweeping changes with wide-reaching implications for the transportation sector.¹ As covered in my earlier column,² two headline measures affect drivers and operators in the taxi, for-hire vehicle (FHV), and bus industries: (1) new federal tax deductions for tips and overtime pay, and (2) the termination of the federal electric vehicle (EV) tax credit.

The United States Treasury Department (Treasury) and the Internal Revenue Service (IRS) released proposed rules clarifying how the new “no tax on tips” provision will work.³ The draft regulations spell out nearly 70 occupations that regularly receive tips — including taxi, rideshare, limousine, shuttle, charter bus, and tour bus drivers — and define which types of tips qualify for the deduction. Treasury and the IRS are also asking for public feedback. Comments can be submitted through Regulations.gov and must be filed by October 23, 2025.

¹ <https://www.congress.gov/bill/119th-congress/house-bill/1/text>

² <https://www.blackcarnews.com/article/trumps-big-beautiful-bill>

³ <https://www.federalregister.gov/public-inspection/2025-18278/occupations-that-customarily-and-regularly-received-tips-definition-of-qualified-tips>

“No Tax on Tips” Deduction



A new tax break taking effect in 2025 may put some extra money back into drivers’ pockets. Between 2025 and 2028, employees and self-employed workers in occupations recognized by the IRS as “customarily and regularly receiving tips” will be able to deduct a portion of their reported tip income.

The new deduction allows eligible workers to write off up to \$25,000 per year in qualified tips. For self-employed individuals, the deduction cannot exceed the net income earned from the business where the tips were received. The benefit begins to phase out for taxpayers with a modified adjusted gross income over \$150,000 (or \$300,000 for married couples filing jointly).

This new deduction applies to both cash and credit card tips, as well as tips shared through pooling or tip-out arrangements. To qualify, tips must be voluntary—*i.e.*, automatically-added gratuities that are non-negotiable would not qualify.

Under the proposed IRS rules, not every tip will qualify for the upcoming tax break. To qualify, tips must be paid in cash or in a cash-equivalent form, like a check, credit card, debit card, or a mobile payment app. The payments must come directly from customers or through a tip-sharing system such as a tip pool.

Importantly, tips have to be voluntary — money that customers choose to leave in addition to the trip bill. Automatic charges with no option for the customer to disregard or modify them, like a 20% service fee added to all trips, will not qualify, even if those funds are distributed to drivers.

Treasury's List of Tipped Occupations



The Treasury Tipped Occupation Code (TTOC) provides a three-digit code and descriptions for the occupations listed within the proposed regulations. The list explicitly includes taxi, rideshare, limousine, shuttle, charter bus, and tour bus drivers, ensuring that many in the for-hire transportation sector are positioned to benefit from the new tip deduction.

For the transportation sector, the following TTOCs are most relevant:

- TTOC 802: Taxi & Rideshare Drivers and Chauffeurs – covering taxis, limousines, and TNCs.
- TTOC 803: Shuttle Drivers – including airport, hotel, and rental car shuttles.
- TTOC 806: Private & Charter Bus Drivers – including tour and sightseeing operators.
- TTOC 704: Tour Guides and Escorts – such as “hop-on, hop-off” sightseeing guides.
- TTOC 705: Travel Guides – covering directors of long-distance tours.

Absent from the list are public transit bus drivers, intercity bus operators, and school bus drivers. This reflects both industry practice and legal limits—as these occupations generally do not receive tips and, in many cases, are prohibited from accepting gratuities.

Ambiguities and Problem Areas

While the Treasury's list provides long-awaited clarity, several issues remain unresolved. The description of “shuttle driver,” for example, is problematic because the term is undefined in federal law. This creates uncertainty for operators of airport and commuter services that could plausibly be classified as either shuttles, public transit, or intercity buses. Depending on how an

employer interprets the service, the difference could determine whether drivers qualify for the deduction at all. Another concern is the inclusion of “private bus drivers” on the list.

In federal regulatory language, a “private motor carrier” does not typically provide for-hire, tipped services, suggesting that the Treasury may have misapplied the term. Similarly, the Treasury grouped tour bus drivers under private and charter service, even though tour operations are neither private nor charter in the technical sense. These definitional ambiguities may leave employers and drivers uncertain about how to classify their work, and they raise the possibility of inconsistent application or disputes down the line.

Reporting Requirements

Under the new rules, employers and other payors will need to report tip income to the IRS and provide statements to workers that identify both the amount of cash tips received and the applicable TTOC for the recipient. For drivers, this means tips must appear on the proper tax forms—Form W-2 or 1099 for employees and contractors, respectively, or on Form 4137 if reported directly by the individual.

Special care will be required for workers who split time between tipped and non-tipped roles. In those cases, employers must designate a TTOC only for the tipped portion of the work. For example, a bus company employing drivers on both intercity routes (non-tipped) and private charters (tipped) would need to track and report those assignments separately.

“No Tax on Overtime” Deduction

Another new tax break set to begin in 2025 could benefit drivers who regularly log long shifts. Between 2025 and 2028, individuals may deduct the *overtime premium* portion of their pay—that is, the extra “half” in the standard “time-and-a-half” overtime rate required by the Fair Labor Standards Act (FLSA). To qualify, the overtime must be properly reported on a Form W-2, 1099, or other IRS-recognized statement.

The deduction is capped at \$12,500 per year for single filers, or \$25,000 for joint filers. It begins to phase out for taxpayers with modified adjusted gross income above \$150,000 (or \$300,000 for joint returns). For drivers who put in long hours to meet demand—whether for airport runs, weekend weddings, or late-night trips—this provision offers a direct way to reduce taxable income on the overtime that keeps the industry moving.

EV Tax Credits Still Ending



Separate from the tip and overtime provisions, OBBBA phases out federal EV incentives as of October 1, 2025. The Clean Vehicle Credit (\$7,500 for new EVs), the \$4,000 used EV credit, and the Commercial Clean Vehicle Credit will all sunset. This will hit taxi, FHV, and small fleet operators especially hard, shifting the burden of electrification incentives onto states and municipalities.

The IRS did recently clarify, however, that as long as someone enters a binding contract to buy a vehicle before September 30, 2025, the purchase can qualify for the tax credit even if the car is delivered at a later point.⁴ A payment, including a down payment or vehicle trade-in, is also required before the deadline.

Key Takeaways for Drivers & Companies

The bottom line is that the tip deduction is moving forward, and companies will need to adjust their payroll systems to report the appropriate codes on W-2 and 1099 forms beginning with 2025 tax returns. Companies that apply automatic gratuities may want to reconsider and provide an option for customers to disregard or modify the tip. At the same time, those considering electric vehicle purchases or upgrades must act quickly.

Taken together, these developments reflect a mixed policy direction: on one hand, the federal government is offering income support to drivers through tax relief on tips and overtime, while on the other hand, it is withdrawing incentives that made sustainable fleet transitions more affordable. For both drivers and mobility companies, the key is to stay proactive, ensuring

⁴ <https://www.irs.gov/newsroom/faqs-for-modification-of-sections-25c-25d-25e-30c-30d-45l-45w-and-179d-under-public-law-119-21-139-stat-72-july-4-2025-commonly-known-as-the-one-big-beautiful-bill-act-obbb>

compliance with the new rules while also reassessing workforce arrangements, compensation structures, and vehicle acquisition strategies in light of the shifting federal landscape.

It is crucial to consult with legal and tax professionals before implementing changes or advising employees or independent contractors about these new deductions. If you have any questions, please reach out and contact our firm anytime at mdaus@windelsmarx.com, or 212-237-1106.