



LETICIA CASTILLO

58TH ASSEMBLY DISTRICT

AB 1443 - Personal income taxes: unemployment insurance: tips.

IN BRIEF:

Assembly Bill 1443 exempts tips from being considered taxable income under the California Personal Income Tax Law and from being treated as wages for unemployment insurance and employment training tax purposes. This change will provide financial relief to workers who rely on tips as a significant portion of their earnings.

EXISTING LAW:

Under current law, tips received by employees are included as taxable income and subject to state income tax withholding and payroll taxes. Employers are required to report tip income and withhold applicable taxes under the oversight of the Employment Development Department (EDD).

THE ISSUE:

Workers in the hospitality, service, and other tip-reliant industries often depend on gratuities to supplement their base wages. However, taxing tips as regular income places a financial burden on these workers, many of whom earn modest wages. The additional taxation on tips reduces take-home pay and disproportionately affects low- and middle-income employees. Given the rising cost of living in California, particularly in major metropolitan areas, many workers struggle to afford basic necessities. Unlike salaried employees, these workers rely on fluctuating income, making it harder to budget and save. Taxing tips as standard wages exacerbates this problem by reducing disposable income, making it more difficult for workers to cover unexpected expenses or invest in personal growth opportunities like education and career advancement. Exempting tips from taxation would help alleviate these financial pressures and ensure that workers receive their full earned income.

Additionally, businesses face administrative burdens in tracking and reporting tip income. Small businesses, in particular, struggle with the complex compliance requirements associated with withholding and reporting taxes on tips. This creates unnecessary costs and inefficiencies, diverting resources from other critical business operations. Simplifying the tax treatment of tips would not only benefit workers but also streamline operations for businesses, fostering a more efficient and supportive economic environment.

THE SOLUTION:

AB 1443 removes tips from taxable income under California law and excludes them from the definition of wages for purposes of unemployment insurance and payroll tax contributions. By allowing workers to keep their full tips without state tax deductions, this bill ensures that service industry employees receive the full benefit of customer gratuities. Additionally, businesses will benefit from reduced reporting and withholding requirements, simplifying payroll processes and lowering administrative costs. This change will support workers who rely on tips while reducing regulatory burdens for employers.

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