FICA Tip Credit (IRC §45B)

The FICA Tip Credit (Internal Revenue Code §45B) allows employers to claim an income tax credit equal to the employer's share of FICA taxes (7.65%) paid on employee tips that exceed the federal minimum wage of $5.15/hour. This credit primarily benefits businesses where employees receive tips for providing, delivering, or serving food and beverages.

Summary: Employers in the food and beverage sector who pay FICA taxes on employees' reported tips can often claim thousands of dollars in annual tax savings under IRC §45B. Use IRS Form 8846 to claim the credit, which flows to Form 3800 (General Business Credit).

45B FICA TAX TIP CREDIT

The **FICA TIP TAX CREDIT** allows employers to take a credit on a portion of the employer FICA taxes paid on the employee tips.

Employer FICA taxes are comprised of **SOCIAL SECURITY** and **MEDICARE TAX**, which is currently taxed at 7.65% of the gross wages.

Congress enacted the general business credit in 1993 at the urging of the National Restaurant Association.

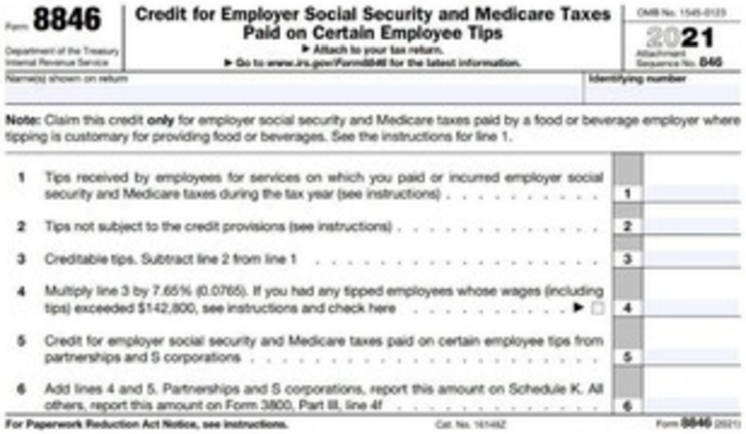
Employee tip income is treated as **EMPLOYER-PROVIDED WAGES** subject to income tax and employment taxes under the **FEDERAL INSURANCE CONTRIBUTIONS ACT (FICA)**.

Employers are responsible for withholding employee income tax and the employee's share of FICA taxes and paying the employer's share of FICA taxes on the reported tips.

IRS FORM 8846 CREDIT FOR EMPLOYER SOCIAL SECURITY AND MEDICARE TAXES PAID ON CERTAIN EMPLOYEE TIPS

Certain food and beverage employers use FORM 8846 to claim a credit for social security and Medicare taxes paid or incurred by the employer on certain employees' tips.

The credit is part of the general business credit.



Form **8846**

Department of the Treasury
Internal Revenue Service

Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips

▶ Attach to your tax return.
▶ Go to www.irs.gov/Form8846 for the latest information.

OMB No. 1545-0123
2021
Attachment Sequence No. 846

Name(s) shown on return | Identifying number

Note: Claim this credit **only** for employer social security and Medicare taxes paid by a food or beverage employer where tipping is customary for providing food or beverages. See the instructions for line 1.

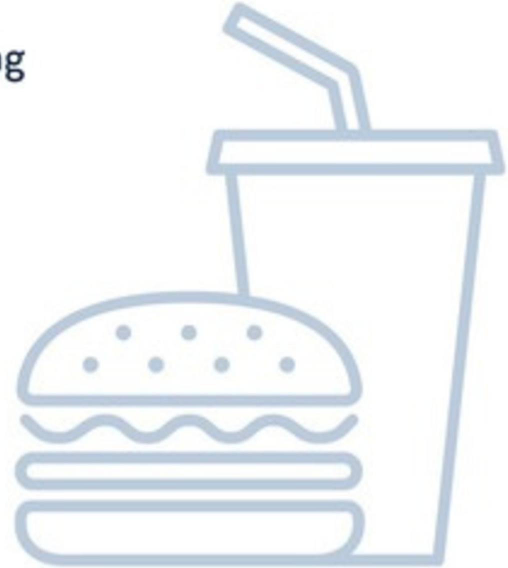
1	Tips received by employees for services on which you paid or incurred employer social security and Medicare taxes during the tax year (see instructions)	1	
2	Tips not subject to the credit provisions (see instructions)	2	
3	Creditable tips. Subtract line 2 from line 1	3	
4	Multiply line 3 by 7.65% (0.0765). If you had any tipped employees whose wages (including tips) exceeded $142,800, see instructions and check here ▶ ☐	4	
5	Credit for employer social security and Medicare taxes paid on certain employee tips from partnerships and S corporations	5	
6	Add lines 4 and 5. Partnerships and S corporations, report this amount on Schedule K. All others, report this amount on Form 3800, Part III, line 4f	6	

For Paperwork Reduction Act Notice, see instructions. Cat. No. 16148Z Form **8846** (2021)

Employers may claim this credit if they have employees who received tips from customers for **PROVIDING, DELIVERING, OR SERVING FOOD OR BEVERAGES** for consumption if tipping of employees for delivering or serving food or beverages is customary.

Generally, the credit equals the amount of employer **SOCIAL SECURITY** and MEDICARE taxes paid or incurred by the employer on tips received by the employee.

However, employers **CANNOT** claim the credit for taxes on any tips that are used to meet the federal minimum wage rate.



HAVE YOU DONE THE MATH?

HOW MUCH CAN YOUR BUSINESS SAVE IF YOU HAD ACCESS TO THE 45B FICA TAX TIP CREDIT?

H.R. 45 | S. 45, the Small Business Tax Fairness Act, is pending before both the House and Senate. This legislation will allow salons access to the same tax credit as restaurants for the employer portion of FICA taxes paid on tips.

ANNUAL REPORTED TIPS	ANNUAL TAX CREDIT
$25,000	**$1,913**
$50,000	**$3,825**
$75,000	**$5,738**
$100,000	**$7,650**
$125,000	**$9,563**
$150,000	**$11,475**
$175,000	**$13,388**
$200,000	**$15,300**
$225,000	**$17,213**
$250,000	**$19,125**
$275,000	**$21,038**
$300,000	**$22,950**
$325,000	**$24,863**
$350,000	**$26,775**
$375,000	**$28,688**
$400,000	**$30,600**
$425,000	**$32,513**
$450,000	**$34,425**
$475,000	**$36,338**
$500,000	**$38,250**

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FICA Tip Credit (IRC §45B) – Eligible Industries Overview

The FICA Tip Credit (Internal Revenue Code §45B) allows employers to claim an income tax credit equal to the employer's share of FICA taxes (7.65%) paid on employee tips that exceed the federal minimum wage of $5.15/hour. This credit primarily benefits businesses where employees receive tips for providing, delivering, or serving food and beverages.

■ **Commonly Eligible Industries**

Industry	Example Employers	Notes
Full-Service Restaurants	Bistros, fine dining, casual dining	Waitstaff and bartenders typically receive reportable tips.
Bars & Nightclubs	Bars, lounges, clubs	Bartenders and cocktail servers earn tips on beverage service.
Hotels & Resorts	Food & Bev restaurants,	banquets, beverage departments qualify.
Catering Companies	Event and banquet caterers	Tips or service charges from events may qualify.
Country Clubs & Golf Clubs	Dining and event services	Tips from food/beverage service count.
Casinos & Cruise Lines	Casino restaurants, shipboard	Food & beverage portion only; gaming tips excluded.
Event Venues	Wedding/event facilities	Tips from serving food/beverages qualify.

■ **Typically Not Eligible:**
Hair salons, spas, barbers, retail stores, and non-food delivery or service businesses do not qualify because their tips are not related to food or beverage service.

Summary:
Employers in the food and beverage sector who pay FICA taxes on employees' reported tips can often claim thousands of dollars in annual tax savings under IRC §45B. Use IRS Form 8846 to claim the credit, which flows to Form 3800 (General Business Credit).

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