



COMMENT LETTER SUBMISSION
VIA ELECTRONIC FILING

OMB Number: 1545-2205

Andrés Garcia

Internal Revenue Service

Room 6526

1111 Constitution Avenue NW

Washington, DC 20224

Re: Updated Form 1099-K Revision to Facilitate Qualified Tip Deduction

Dear Mr. Garcia:

PayPal and Stripe appreciate the opportunity to resubmit the attached letter, which was provided in response to the Department of the Treasury (“Treasury”) and the Internal Revenue Service (the “IRS”) notice of proposed rulemaking published on September 22, 2025 regarding the deduction for qualified tips provided to eligible individuals.

In particular, we hope that you will find the observations and recommendations under Sections I.B. and II. helpful as you update Form 1099-K, its corresponding instructions, and other supplemental guidance in response to the recent legislative changes.

We remain committed to working with Treasury and the IRS on the implementation of these changes and welcome any further discussion on this or related information reporting matters.

Sincerely,

PayPal and Stripe



COMMENT LETTER SUBMISSION
VIA ELECTRONIC FILING

CC:PA:01:PR (REG-110032-25)
Room 5203
Internal Revenue Service
P.O. Box 7604
Ben Franklin Station
Washington, DC 20044

Re: Proposed Regulations Regarding Deduction for Qualified Tips

Dear Sir or Madam:

PayPal and Stripe appreciate the opportunity to provide this letter in response to the Department of the Treasury (“Treasury”) and the Internal Revenue Service (the “IRS”) notice of proposed rulemaking published on September 22, 2025 regarding the deduction for qualified tips provided to eligible individuals (the “Proposed Regulations”). We welcome the consultative efforts by Treasury and the IRS to ensure eligible taxpayers can claim this valuable tax deduction.

As payment service providers and builders of economic infrastructure, PayPal and Stripe are responsible for processing a massive volume of payments, including those to individuals for services. These payments may be made directly by a sender who received the services, as payouts from employers and clients, or via gig economy platforms. Together, we have pioneered innovative and accessible products, features, and services for over 40 combined years, and continue to provide value for our consumer and business customers in their daily lives.

PayPal and Stripe are deeply invested in working with Treasury and the IRS on the implementation of cash tip reporting processes that are administrable and appropriate for customers, platforms, and the IRS. Below, we provide our views and recommendations with respect to the Proposed Regulations where applicable to our business, knowledge, and experience.

I. Definition of Cash Tips and Special Rules for Specified Service Trades or Businesses

A. Background

In defining qualified tips, section 224 of the Internal Revenue Code (the “Code”) enumerates two limitations. First, amounts will only be eligible if they are “paid voluntarily without any consequence in the event of nonpayment, [are] not the subject of negotiation, and [are] determined by the payor.”¹ Second, amounts must not be received in the course of a specified service trade or business (“SSTB”).² This limitation also applies where an individual receives tips as an employee whose employer is engaged in an SSTB.³

In expounding on the ‘paid voluntarily’ requirement, the Proposed Regulations provide that “[q]ualified tips must be paid without compulsion,” concluding that amounts such as automatic gratuities do not constitute qualified tips.⁴ Conversely, amounts are not deemed mandatory where a customer is provided with the express option to omit or change the amount.⁵ Treasury provides several examples to illustrate these nuanced definitions.⁶

With respect to tips received in the course of an SSTB, the Proposed Regulations reiterate that qualified tips do not include tip amounts received by an individual either in the course of their own SSTB or, to the extent tips are received by an employee, in the course of their employer’s SSTB.⁷ The Proposed Regulations further specify that this restriction applies “regardless of whether the trade or business or an owner of the trade or business is eligible for a deduction under section 199A.”⁸ Additionally, the SSTB limitation on the qualified tips deduction supersedes the inclusion of the individual’s occupation on the list of potentially eligible occupations.⁹

In order to claim the deduction, an individual’s qualified tips must be included on Forms 1099-MISC, 1099-NEC, 1099-K, and/or W-2, or reported by the individual on Form 4137.¹⁰ To facilitate the reporting of tips, section 6050W of the Code was also modified to require third party settlement organizations (“TPSOs”) to report the portion of reportable payment transactions designated by payors as cash tips.¹¹ ‘Cash tips’ are defined to include any “tips received from customers that are paid in cash or charged and, in the case of an employee, tips received under any tip-sharing arrangement.”¹²

¹ 26 U.S. Code § 224(d)(2)(A).

² 26 U.S. Code § 224(d)(2)(B).

³ 26 U.S. Code § 224(d)(2).

⁴ See Prop. Treas. Reg. § 1.224-1(c)(3).

⁵ See *id.*

⁶ See Prop. Treas. Reg. § 1.224-1(c)(3)(i)-(x). Examples 2 and 6 both describe scenarios where only the difference between the amount deemed to be compulsory and the amount paid voluntarily according to the Proposed Regulations constitutes a qualified tip.

⁷ See Prop. Treas. Reg. § 1.224-1(c)(4).

⁸ *Id.*

⁹ See Prop. Treas. Reg. § 1.224-1(c)(4), (f)(2).

¹⁰ See 26 U.S. Code § 224(a).

¹¹ See U.S. Code § 6050W(a)(3), (f)(2).

¹² 26 U.S. Code § 224(d)(3).

B. Application to Third Party Settlement Organizations (“TPSOs”)

We appreciate the distinction drawn between cash tips and qualified tips with respect to Form 1099-K reporting. The requirement to report cash tips acknowledges that TPSOs are not in a position to possess or obtain all information necessary to determine whether cash tips satisfy the various requirements for qualified tips.

At the same time, we are concerned with the taxpayer burden and confusion that our customers will experience—due to either a discrepancy between the amount of cash tips reported on their Forms 1099-K and the amount of qualified tips that are truly eligible for deduction or a mistaken assumption that the full amount of reported cash tips automatically qualify for the deduction. As a result, we anticipate an increased administrative burden on the IRS, as the cash tip amounts reported on Forms 1099-K, MISC, and NEC will not necessarily reconcile with the qualified tip amounts eligible or claimed for deduction.

Prior to the enactment of the One Big Beautiful Bill Act (“OBBBA”), we, as TPSOs, have routinely received tax-related questions from our customers. Due to the nuanced rules relating to qualified tips and the reporting of cash tip amounts on Forms 1099-K, customers will undoubtedly seek additional clarification and guidance from us, as the issuers of the information returns that report their tips. As we are unable to provide tax advice to our customers, they may be required to research the complex rules themselves, contact the IRS directly, seek assistance from a tax professional, or pursue other methods that will increase their time and cost burdens related to filing their income tax returns.

It is also important to note that, due to the complex nature of payment transaction processing, TPSOs are unlikely to be able to capture all cash tip amounts on Forms 1099-K. Specifically, there are several additional parties—including credit card networks, banking partners, point of sale (“POS”) providers, and other platforms—that may be involved in a single transaction prior to that transaction entering the TPSO’s ecosystem. As most of these parties have no obligations with respect to cash tip reporting or the qualified tip deduction, they are neither required nor incentivized to update their systems or data sharing processes to include cash tip data. If one party involved in a transaction fails to implement these updates, it can make it impossible for the TPSO settling the transaction to know whether any cash tips were paid to the recipient.

C. Recommendations

Expand the use of Form 4137. We recommend that, for tax years 2025 to 2028, the IRS allow taxpayers to use Form 4137 for purposes of claiming a deduction for qualified tips, regardless of whether they received such tips as an employee, independent contractor, freelancer, etc. This would provide a section 224-sanctioned path for taxpayers whose Forms 1099 do not reflect the total cash tips actually received (e.g., due to parties within the

payment transaction process not updating their systems to support cash tip reporting) as well as for taxpayers who do not receive a Form 1099 having not met the reporting threshold (discussed further below).

Publish clear and robust taxpayer guidance. Due to the conflict between the average taxpayer's understanding of 'tips' and the complicated requirements of 'qualified tips,' we recommend that the IRS publish substantial guidance to encourage appropriate use of this deduction and to minimize taxpayer burden and confusion. Among other topics, we recommend that this guidance address the following points.

- What type and level of record-keeping do taxpayers need to engage in?
- What alternatives (e.g., estimates) would be acceptable, given that many other involved parties are neither obligated nor incentivized to accommodate taxpayers claiming this deduction?
- What level of investigation must taxpayers engage in to determine whether their employer is engaged in an SSTB?
- Is there an expectation that taxpayers clearly understand the tip-related policies of their employers/clients, the operational functionality of the POS providers, and other business decisions/policies outside of their control to understand which amounts are compulsory versus voluntary?
- How can a taxpayer determine whether they received tips during or outside the course of their or their employer's SSTB?
- Can a taxpayer still claim the deduction if their cash tips were not reported on a Form 1099 or W-2 (due to, for example, not meeting the reporting threshold)?
- If the use of Form 4137 is permitted by non-employees, instructions on how and when taxpayers may use this form.

General simplification of the requirements. To the extent permissible, we recommend that Treasury and the IRS promulgate rules and regulations that are consistent with the simple tax deduction embodied by the colloquial name 'No Tax on Tips.' Simplification of the Proposed Regulations could ease taxpayers' burden and encourage proper tax deduction claims while making Forms 1099 and W-2 more useful to both taxpayers and the IRS.

For example, instead of the many situational examples relating to SSTBs in the Proposed Regulations, the occupation list could be made more robust and clear with respect to the interplay between eligible occupations and disqualification due to SSTB status. Many individuals are only looking to the occupation list to determine their eligibility; they are not poring over the Proposed Regulations to understand the nuances of when an eligible occupation is, in fact, no longer eligible.

II. Other Clarifications Requested

A. Background

To facilitate qualified tip deduction claims by taxpayers, sections 6050W, 6041, and 6041A were also updated as part of OBBBA to require TPSOs and certain other payors to report (1) the portion of reportable payments that have been reasonably designated as cash tips and (2) the tip recipient's occupation.¹³

The 2025-2026 Priority Guidance Plan released by Treasury on September 30, 2025, lists 40 items relating to implementation of OBBBA.¹⁴ Only one item (relating to section 224 guidance) references qualified tips.¹⁵ Items pertaining to updated regulations under sections 6050W, 6041, and 6041A only reference the reporting thresholds.¹⁶

The IRS recently published updated Form 1099-K frequently asked questions.¹⁷ Among the updates, the IRS noted that a payor "is allowed to issue an information return to the recipient and the IRS when the payment(s) have not met the reporting threshold" for the purpose of facilitating qualified tip deduction claims.¹⁸

B. Recommendations

Provide alternatives to tip recipients who do not receive Forms 1099. As described above, in the context of payment transactions, there will be many instances where the presence and/or amount of cash tips is unknown to the TPSO. Separately, for tips received as part of a third-party network transaction, individuals may not meet the reporting threshold of more than \$20,000 and more than 200 transactions for the provision of goods or services. In particular, many tip recipients receiving payments in the course of multiple occupations (such as gig economy workers) may not meet the federal reporting thresholds with respect to each distinct TPSO, platform, or other payor.

As such, we reiterate our recommendation above to allow tip recipients to use Form 4137 when their cash tips have not been reported on a Form 1099. Additionally, with respect to TPSOs and other payors that choose to overreport by ignoring the statutory reporting thresholds, we recommend that the IRS grant such issuers relief from accuracy and filing-related penalties. It is important to note that the latter recommendation may still lead to Forms 1099 that do not include the total cash tips actually received by the tip recipient; for this reason, we strongly encourage Treasury and the IRS to adopt both recommendations in tandem.

¹³ See 26 U.S. Code §§ 6050W(a)(3), 6041(a), 6041A(a).

¹⁴ Department of the Treasury, 2025-2026 Priority Guidance Plan (Sept. 30, 2025), <https://www.irs.gov/pub/irs-counsel/2025-2026-initial-pgp.pdf>.

¹⁵ See *id.*

¹⁶ See *id.*

¹⁷ Internal Revenue Service, Fact Sheet 2025-08 (Oct. 23, 2025), <https://www.irs.gov/pub/taxpros/fs-2025-08.pdf>.

¹⁸ See *id.*

Issue clarifying regulations on the collection and reporting of occupations. Although cash tip amounts must be properly designated by payors, we presume that occupation data must be collected from the tip recipients themselves. Many tip recipients engage in multiple occupations, of which some may not be included on the list of eligible occupations, some may correspond to conflicting Treasury Tipped Occupation Codes (“TTOCs”), and some may be invalidated due to the SSTB rules.

For example, Taxpayer has 3 jobs—freelance makeup artist, driver for Platform A, and comedian. Payments for each occupation are processed by TPSO B. When prompted by TPSO B to provide their occupation, Taxpayer selected “TTOC 208 – Entertainers and Performers.” TPSO B has no knowledge of Taxpayer’s other jobs, whether Taxpayer is engaged in an SSTB, or to which job each cash tip amount designated by a payor relates. Assuming Taxpayer meets the federal reporting threshold under section 6050W and cash tip amounts have been identified by payors, TPSO B issues to Taxpayer a Form 1099-K that reports payor-designated cash tips and an occupation code of TTOC 208.

Currently, there exist no regulations or guidance addressing whether and how TPSOs should handle the common fact pattern of individuals with multiple occupations. Occupation reporting by TPSOs could result in taxpayers mistakenly believing all or none of their reported cash tips are eligible for the qualified tip deduction. This requirement also provides limited utility to the IRS in administering and enforcing proper use of the deduction.

We recommend that the IRS develop additional certifications for Form 1040 relating to qualified tip deduction eligibility and the taxpayer’s occupation(s) instead of relying on reported occupations from TPSOs and other payors. If this is not feasible, we would appreciate guidance on how TPSOs should navigate the issues described above in a way that is practicable for both TPSOs and the IRS, acknowledging that this need is immediate for TPSOs to properly handle cash tips paid beginning on January 1, 2026.

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We appreciate the opportunity to comment on the request for feedback and welcome any discussions in-person or virtually to discuss this comment or related information reporting matters.

Sincerely,

PayPal and Stripe