GUIDE · TAX YEAR 2026

FICA Tip Credit Guide 2026

Form 8846 for restaurants, bars, cafés, nail and hair salons, barbershops and spas.

> **What this credit is:** when your employees report tips, you pay the employer share of Social Security and Medicare (7.65%) on those tips. The FICA tip credit gives much of that money back as an income tax credit.

New since 2025

The credit used to cover only food and beverage businesses. For tax years beginning after December 31, 2024, it also covers tips for **barbering and hair care, nail care, esthetics, and body and spa treatments**, where tipping is customary.

What is inside this kit

File	What it does
FICA_Tip_Credit_Calculator_2026_EN.xlsx	One-month check, monthly log, annual Form 8846 summary, 3 scenarios, edge cases
This guide (PDF)	How the credit works, step-by-step math, what counts, year-end checklist

Who this is for

- Owners and office managers of tipped businesses who want to estimate the credit before year-end.
- Anyone who wants to check the numbers a payroll provider or tax preparer will use.

> **Important:** this is an educational estimate. It is not tax or legal advice and does not guarantee any result. Your tax preparer makes the final calculation on Form 8846.

Built by a US tax and bookkeeping practice with 20+ years of bookkeeping experience. Rates checked November 10, 2026.

1. How the credit works

The credit is figured **per employee, per month**. Only tips above a minimum-wage "gap" count.

1 Reported tips for the month → **2** Hours × federal rate ($5.15 or $7.25) → **3** Gap = line 2 − cash wages (not below 0) → **4** Creditable tips = tips − gap → **5** Credit = creditable × 7.65%

Key numbers (tax year 2026)

Item	Amount	Where it comes from
Federal rate used for food & beverage	**$5.15 / hour**	26 U.S.C. 45B: minimum wage as in effect January 1, 2007
Federal rate used for beauty services	**$7.25 / hour**	Form 8846 instructions (current federal minimum wage)
Credit rate	**7.65%**	Employer Social Security 6.2% + Medicare 1.45%
Tips above the Social Security wage base	**1.45%** only	Form 8846 line 4 instructions
Social Security wage base	**$184,500** (2026) · $192,300 (2027)	SSA contribution and benefit base

> **Why the gap matters:** if you pay a server a $2.13 cash wage, part of their tips is treated as bringing them up to $5.15 an hour. FICA on that part does not earn the credit. If you pay $5.15 or more an hour (food) or $7.25 or more (beauty), **every reported tip counts**.

Two more rules to know

- **Use the federal rate, not your state's.** A higher state minimum wage does not change the $5.15 / $7.25 test.
- **No double benefit.** Reduce your income tax deduction for employer payroll taxes by the amount of the credit.
- The credit is part of the general business credit. You may claim it, or elect not to, within 3 years of the return due date (original or amended return).

2. Step-by-step with a worked example

Example (illustrative values): a restaurant server works **120 hours** in October, is paid a cash wage of **$2.13/hour ($255.60)** and reports **$2,400** in tips.

Step	Math	Result
1. Hours × federal rate	120 × $5.15	$618.00
2. Gap (not below zero)	$618.00 − $255.60	$362.40
3. Tips not creditable	smaller of $2,400 and $362.40	$362.40
4. Creditable tips	$2,400 − $362.40	$2,037.60
5. Credit	$2,037.60 × 7.65%	**$155.88**

Same math in Excel or Google Sheets

Put hours in B2, cash wages in C2, tips in D2, and the rate (5.15 or 7.25) in E2:

Cell	Formula	Meaning
F2	`=MAX(0, B2*E2 - C2)`	Minimum-wage gap
G2	`=D2 - MIN(D2, F2)`	Creditable tips
H2	`=ROUND(G2*0.0765, 2)`	Credit for the month

Doing it for the whole year

1. Each month, enter one row per tipped employee in **Monthly Log** (hours, cash wages, reported tips).
2. In **Annual Summary**, list each employee ID once. Tips and credits add up automatically.
3. If anyone's wages plus tips go over the Social Security wage base, enter their other pay in the grey column. The sheet applies 1.45% to tips above the base.
4. Read Form 8846 lines 1-4 in green and give them to your tax preparer.

> **Tip:** the tips in your log should match the tips your payroll reports (Form 941 and W-2 box 7 Social Security tips). If they do not, find out why before year-end.

3. What counts and what does not

Tip or service charge?

A payment is a tip only if the customer chooses to pay it and decides the amount. A mandatory service charge (for example, an automatic 18% for large parties) is **not a tip**. When you pass it to employees it is regular wages, and it is not part of this credit.

Situation	Counts?	What to do
Tip line filled in by the customer (card or cash)	Yes	Include if the employee reported it and you paid FICA on it
Mandatory service charge / auto-gratuity	No	Treat as wages; leave out of the log
Cash tips the employee never reported	No	No employer FICA was paid, so no credit
Booth renter or 1099 contractor	No	Not your employee
Sole-proprietor owner's own tips	No	An owner is not an employee
Employee paid $5.15+/hr (food) or $7.25+/hr (beauty)	Yes	All reported tips count
Tips smaller than the minimum-wage gap	No	Credit for that month is $0
Counter or takeout where tipping is not customary	Check	The credit needs customary tipping
Employee over the Social Security wage base	Partly	1.45% only on tips above the base
Restaurant and salon in one company	Yes	Choose the business type on each log row

> **Not the same thing:** the new "no tax on tips" deduction is claimed by the **worker** on their own return. It does not change the employer's FICA tip credit.

Employee tip reports

Employees must report cash tips of $20 or more in a month to you by the 10th of the next month (next business day if the 10th is a weekend or holiday). Keep those reports with your payroll records.

4. Year-end checklist and key dates

Before December 31

- ☐ Every tipped employee's monthly tip reports are on file
- ☐ Tips in payroll match tips in your log, month by month
- ☐ Service charges are run as wages, not as tips
- ☐ Hours are recorded for every tipped employee (needed for the gap test)
- ☐ Each location is marked food & beverage or beauty service
- ☐ Booth renters and contractors are not in the log

Key dates for the 2026 tax year (calendar-year businesses)

Date	What
10th of each month	Employees report the prior month's tips to you ($20 or more)
March 15, 2027	S corporation (Form 1120-S) and partnership (Form 1065) returns due; Form 8846 goes with the return
April 15, 2027	Form 1040 (sole proprietors) and Form 1120 (C corporations) due; Form 8846 goes with the return
Within 3 years of the due date	You can still claim (or elect not to claim) the credit on an amended return

Extensions move the filing date (Form 7004 or Form 4868). Fiscal-year businesses use their own dates.

What to hand your tax preparer

- ☐ Annual Summary page (Form 8846 lines 1-4)
- ☐ Business type for each location (food & beverage or beauty)
- ☐ Names of any employee over the Social Security wage base
- ☐ Your payroll tax totals, so the deduction can be reduced by the credit

5. Three test scenarios

	A · Restaurant server	B · Nail tech (commission)	C · Salon assistant
Business type	Food & beverage	Beauty service	Beauty service
Hours / wages / tips	120 h / $255.60 / $2,400	160 h / $1,800 / $900	100 h / $500 / $700
Hours × rate	$618.00	$1,160.00	$725.00
Gap	$362.40	$0	$225.00
Creditable tips	$2,037.60	$900.00	$475.00
Credit	**$155.88**	**$68.85**	**$36.34**

Illustrative values. Each scenario was checked by hand and matches the workbook (Scenarios tab shows "OK").

Official sources

- 26 U.S.C. 45B, credit for portion of employer Social Security taxes paid with respect to employee cash tips
- IRS Instructions for Form 8846 (Rev. December 2026, draft) · IRS.gov/Form8846
- IRS: Tip recordkeeping and reporting (tips vs service charges; $20 / 10th-of-month rule)
- SSA: Contribution and benefit base ($184,500 for 2026; $192,300 for 2027)
- IRS Publication 509 (2027 draft), tax calendars

> **Disclaimer:** educational material only, not tax, legal or accounting advice, and no result is guaranteed. Rules change; check IRS.gov/Form8846 before filing. State credits, Form 8027 and tip allocation are not covered.

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