

# 'No tax on tips' law may help millions buy a piece of American Dream



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"[No tax on tips](#)" may have an unintentional consequence of unlocking a part of the American Dream for four million Americans, experts said.

By allowing workers to claim up to \$25,000 in tip income on their tax returns without having to fear paying tax, the law's boosting the declared earnings that lenders use to calculate [debt-to-income \(DTI\) ratios](#), experts said. DTI is used by the Federal Housing Authority as a critical threshold for mortgage approval.

"This is really a game changer for our residents who work in the tip economy," said Sam Landy, chief executive of UMH Properties, operator of manufactured home communities. "They will gain greater access to financing."

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## How could no tax on tips make FHA mortgages attainable?

The FHA typically allows people to secure a mortgage if they have a DTI, or housing ratio, of [up to 31%](#). Up to 31% of their income can be used for housing costs, including mortgage payment, taxes and insurance.

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Here is how math could work for a couple earning tip wages with two kids, Landy said:

Before no tax on tips, they reported a combined monthly income of \$2,750 in 2024, including tip earnings. A modest manufactured home with \$1,200 in monthly costs would have put their DTI ratio at 43.6%, well above the FHA's 31% ceiling. Under this scenario, the mortgage is denied.

Under "no tax on tips," that same couple can each declare \$25,000 in annual tip income without tax consequence, raising their combined monthly income to approximately \$4,833. Their DTI ratio for that same home drops to 24.8%, well below the FHA threshold. Under that scenario, the mortgage is approved.

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## Is this a gimmick?

It's not akin to the [mortgage crisis in 2007 to 2008](#) when lending standards eased, allowing people with poor credit to borrow.

Instead, this is a policy change that "just lets people have full credit for what they're earning, paying less in taxes, and allows them to have more money to buy the American dream," said Eric Steffy, federal benefits expert and founder chief executive of Federal Solutions Support.

People who might take advantage of the no tax on tips to boost their recorded income and qualify for a [FHA loan](#) are some who currently rent in Landy's manufactured home communities, for example.

His communities maintain 95% occupancy, 98% rent collection and small turnover, showing that people there have stable incomes and have strong payment history, he said. The only thing holding them back from buying a home is likely the DTI requirement, Landy said.

"Now, things are going in the right direction," he said.

Not only can rent payment histories be included in calculating credit scores, but "no tax on tips incentivizes you to record and track your tips since there's no federal tax penalty," Landy said.

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## Is there a catch?

Workers won't automatically qualify for an FHA loan, Steffy said. FHA loans still generally require a [two-year history](#) of stable employment and income, so people may have to still wait a year or so.

But the "great side, is there is hope now" for the "2.5% of workforce who are bartenders, servers or others who work for tips can own something, instead of renting," Steffy said.

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## Make the most of the wait

People may feel disappointed about having to wait before getting a FHA loan, but Steffy said focus on the goal of finally being able to afford a home and use the time productively.

"Start saving, put a plan in place and talk to a mortgage person," he said.

FHA also considers "back-end DTI," which measures how much income someone has to total debt, including not just mortgage and home-related payments but also other debt like car, student loan and credit card payments. Typically, the FHA maximum is a [back-end DTI of 43%](#).

To ensure this is met, Steffy said use the savings from no tax on tips during the wait and pay down debt or save money for a larger down payment so the house buying experience goes smoothly and is assured.

If people follow the steps, no tax on tips "has the potential to help four million people buy their first home or upgrade," Steffy said.

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