

AviTaxes & Accounting Solutions
Bilingual Tax, Bookkeeping & Business Guidance



Financial & Tax Guide for Restaurants

A Washington-Specific Guide for Owners — 2026 Edition

Running a restaurant in Washington means navigating tip rules, sales tax quirks, and payroll complexity most other small businesses never deal with — plus a brand-new federal law taking effect this very tax year that changes how tips are reported. This guide walks through what's genuinely different, with current 2026 numbers.

Figures in this guide (rates, fees, thresholds) are current as of September 2026. These change — verify current figures before acting on a specific number.

1. The New “No Tax on Tips” Law — Payroll Must Change Now

A 2025 federal law (the “One Big Beautiful Bill Act”) created a brand-new federal income tax deduction for tips, in effect for tax years 2025–2028 only. This is genuinely new — most restaurant owners haven't caught up to what it requires yet.

- Employees can deduct up to \$25,000 of qualified tip income from federal income tax
- Critical catch: only voluntary tips qualify — mandatory auto-gratuity on large parties does NOT count as a qualified tip
- FICA (Social Security/Medicare) still applies in full — this only affects federal income tax, not payroll tax
- New for 2026: employers must report qualified tips separately on Form W-2 (Box 12 code “TP,” Box 14b tip occupation code) — POS and payroll systems need updating now if they haven't been already

A Washington Angle

Since Washington has no state income tax, tipped workers here get the full benefit of this deduction automatically at the state level too — there's no separate state tax on tips to worry about.

2. Washington's Tip Credit Rules — Different From Most States

Washington is one of only a handful of states with no tip credit at all.

- Employees get full state minimum wage — \$17.13/hour statewide in 2026 (higher locally: Seattle \$21.30, Tukwila \$21.65) — plus tips on top, always
- If you charge an auto-gratuity or service charge, Washington law requires disclosing on the itemized receipt exactly what percentage goes to the employee
- Managers and supervisors cannot participate in tip pools under Washington law

3. Sales Tax & B&O Tax on Food

Washington treats “prepared food” differently from basic groceries, and it's an easy distinction to get wrong.

- Basic groceries are exempt from WA sales tax — but prepared food (heated, sold with utensils, or made from 2+ ingredients combined by the seller) is taxable
- B&O tax: prepared food sales generally fall under the Retailing classification (0.471%)
- Free employee meals can qualify for a B&O and sales tax exemption if there's no specific charge to the employee for the meal

Why This Matters

B&O tax is based on revenue, not profit — it applies even in a slow month. Budgeting for it separately from sales tax avoids an unpleasant surprise at filing time.

4. Food Cost & Margin Tracking

Restaurant margins are thin enough that small tracking gaps add up fast.

- Track food cost percentage by menu item, not just overall — a popular dish with a bad margin can quietly drag down an otherwise healthy month
- Portion control directly affects your bottom line — treat it as a bookkeeping discipline, not just a kitchen one
- Review vendor pricing regularly; small per-unit increases compound quickly at volume

5. Payroll Complexity Beyond Tips

A few payroll details specific to food service are easy to get wrong:

- Overtime calculations get more complex when tips are involved — the regular rate used for overtime must include certain forms of compensation beyond base wage
- Washington's Paid Sick Leave law applies to restaurant staff, including part-time employees — track accrual carefully
- Keep tip pool records clearly documented — both for the new federal reporting requirement above and in case of a wage claim

Ready for Guidance Built Around Your Restaurant?

AviTaxes & Accounting Solutions offers bilingual (English/Spanish) tax and accounting guidance for restaurants and food service businesses, including help updating payroll for the new tip-reporting rules.

Book a Consultation

Visit www.avitaxes.com/contact or email avitaxes@gmail.com to talk through your restaurant's specific situation.