



2011 Payroll Fact Sheet

Tip Income for Restaurant Employees

If you wait or bus tables, or serve beverages, chances are you receive tips either directly from customers or indirectly from other employees. The information below is designed to provide you with a general overview of your tax and reporting responsibilities as a tipped restaurant employee.

Note: Check with your employer for further clarification on reporting tips. If you have additional tax compliance questions that pertain to your individual circumstances, please seek advice from your tax advisor.

Tip Income

Whether you are a directly-tipped employee (e.g., wait staff, bartender, etc.) or an indirectly-tipped employee (e.g., cook, busser, etc.), your income is affected by tips.

According to the Internal Revenue Service (IRS), tip income can be received in the following forms:

- Cash tips received directly from customers.
- Tips from charge customers that your employer pays you.
- The value of non-cash tips such as tickets, passes, or other items of value.
- Tips received under a tip-splitting or tip-pooling arrangement where one employee shares tips with other employees.

In addition, if you work for a large food or beverage establishment, your employer may allocate extra tips to you that are above and beyond the tips you reported. This may happen if you report tips that are **less than 8%** of the establishment's food and drink sales that were reported to the IRS. If it is discovered that you reported less than your calculated share of tips, a tip allocation amount will appear on your Form W-2 at the end of the year. Note: Do not include service charges in your tip income. This is a mandatory charge that is automatically added to a customer's bill and then included in your wages.

Legal Obligations

Federal laws state that employees who receive more than \$20 in tips during a calendar month are required to report **all tips** as taxable income. Reporting your tip income is not complicated. You just need to do three things:

1. Keep a daily tip record.

Keeping well-organized records will help you ensure that your tip income is accurately reported. It will also be your best proof if your income tax return is ever questioned. You may use IRS Form 4070-A, Employee's Daily Record of Tips, of Publication 1244, which provides you with a year's worth of reporting forms.*

If you prefer, you may create your own tip diary by recording your name, your employer's name, and the business name. In addition, you will need to maintain an itemized list of the following information:

- Cash tips received directly from customers.
- Tips from charge customers that your employer pays you.
- The value of any non-cash tips such as tickets, passes, or other items of value.
- Tips received under a tip-splitting or tip-pooling arrangement.

2. Report tips to your employer.

You must report tips to your employer by the 10th of the following month (or sooner if requested). Your employer may ask you to complete IRS Form 4070, Employee's Report of Tips to Employer, or a similar statement. If your employer does not use this form, then provide your employer a signed and dated statement with the following information:

- Your name, address, and social security number.
- Your employer's name, address, and business name.
- The month (or period) in which you received tips.
- The total tips received for that period.
- Report all your tips on your income tax return.

3. Report all your tips on your income tax return.

As taxable income, tips are subject to federal income tax withholding, social security and Medicare taxes, and possibly state income tax withholding as well. Reporting tips to your employer will enable them to withhold the proper amount for employment tax purposes.

Penalties

If you don't report tips to your employer as required, you could be subject to penalties and interest on underpayment of taxes. Penalties can be as high as 50% of the employment taxes owed, plus interest may be assessed on top of the amount owed.

Advantages for Reporting Tips

Aside from being compliant with the tax law, there are many other reasons why you would want to report your tip income:

- It may improve your financial standing if you need to apply for a loan.
- It can provide you with increased benefits for workers' compensation, unemployment, social security and Medicare, employee pension, annuity, and 401(k) participation.

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