

Tips on Tips



A Guide to Tip Income Reporting

**for Employers in the
Food and Beverage Industry**



If you are an employer in the food and beverage industry, this guide is for you.

The Internal Revenue Service (IRS) began its *Tip Rate Determination/Education Program (TRD/EP)* in October 1993 for the food and beverage industry. The objective of the Program has been to improve and ensure compliance by employers and employees with statutory provisions relating to tip income.

The Program of Tip Reporting

What tip reporting options are available?

- *Tip Rate Determination Agreement (TRDA)*
- *Tip Reporting Alternative Commitment (TRAC)*
- Institute your own reporting system to comply with the tax law

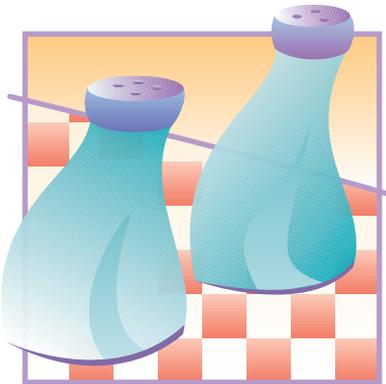
Under the *Tip Rate Determination/Education Program (TRD/EP)*, you may enter into either the TRDA or TRAC arrangement. The IRS will help you understand and meet the requirements for participation. The next pages show you how these two arrangements differ.

What's in it for me?

- A business tax credit for social security and Medicare taxes that you pay on certain employee tips
- Compliance with the law

How does the program benefit my employees?

- Greater social security and Medicare benefits
- Increased income may improve their financing approval when applying for mortgage, car, and other loans
- Increased unemployment benefits
- Increased retirement plan contributions (if applicable)
- Increased worker's compensation



TRDA vs. TRAC (how they differ)

TRDA

TRDA requires the IRS to work with the establishment to arrive at a tip rate for the various restaurant occupations.

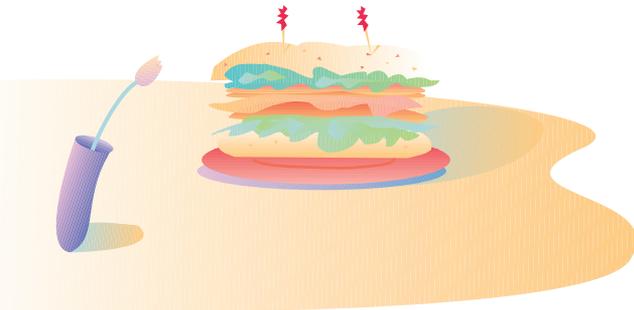
TRDA requires the employee to enter into a *Tipped Employee Participation Agreement (TEPA)* with the employer.

TRAC

TRAC does not require that a tip rate be established but it does require the employer to:

- establish a procedure where a directly tipped employee is provided (no less than monthly) a written statement of charged tips attributed to the employee.
- implement a procedure for the employees to verify or correct any statement of attributed tips.
- adopt a method where an indirectly-tipped employee reports his or her tips (no less than monthly). This could include a statement prepared by the employer and verified or corrected by the employee.
- establish a procedure where a written statement is prepared and processed (no less than monthly) reflecting all cash tips attributable to sales of the directly-tipped employee.

TRAC does not require an agreement between the employee and the employer.



TRDA

TRDA requires the employer to get 75% of the employees to sign *TEPAs* and report at or above the determined rate.

TRDA provides that if employees fail to report at or above the determined rate, the employer will provide the names of those employees, their social security numbers, job classification, sales, hours worked, and amount of tips reported.

TRDA has no specific education requirement.

TRDA participation assures the employer that prior periods will not be examined as long as participants comply with the requirements under the agreement.

TRAC

TRAC affects all (100%) employees.

TRAC provides that if the employees of an establishment collectively underreport their tip income, tip examinations may occur but only for those employees that underreport.

TRAC includes a commitment by the employer to educate and reeducate quarterly all directly and indirectly-tipped employees and new hires of their statutory requirement to report all tips to their employer.

TRAC includes the same rule.



Example of a TRAC Statement

Use the following guide to help you develop your statement to give to your employee. A TRAC statement is given to an employee showing tips attributed to him/her. This example not only fulfills the statement required for charged tips, but also for cash tip reporting and for indirectly-tipped employee reporting.

Employer Portion

Employee Name: Mark Doe
 Employee Address: 123 Main Street
 City, State, Zip: Any Town, USA 12345
 Employee SSN: 000-00-0000
 Job Category: Food Server
 Restaurant Name: ABC Bar & Grill
 Employer EIN: 00-0000000
 Report Period: 01/01/00-01/31/00

Gross Sales \$ 6,000.
 Charged Sales w/Tips \$ 2,000.
 Charged Tips \$ 280.
 Charged Tip Rate 14%
 Sales Subject to Cash Tips \$ 4,000.

Employee Portion

Cash Tips \$ 520.
 Cash Tip Rate 13%

Tips Shared w/Others

Name:	Job Category:	Amount:
<u>Johnny Noname</u>	<u>Busser</u>	<u>\$ 120.</u>

Total (120.)

Tips Received from Others

Name:	Job Category:	Amount:
<u>Susie Cue</u>	<u>Cocktail</u>	<u>\$ 100.</u>

Total 100.

Net tips kept and reportable: \$ 780.

Employee Signature: Mark Doe Date: 2/5/00

Employer fills out top portion.

Gross Sales: *only* include food & drink amount. *Do not* include tax, tip, or nonfood/drink items.

Charged Sales: include charged sales that show a tip on food & drink amounts *only*. *Do not* include tax, tip, or nonfood/drink items. (A charged sale with no tip is included as a cash sale.)

Employee fills out bottom portion.

An indirectly-tipped employee would only receive (from the employer) the "title" portion of statement filled out, unless employer captured "tips shared w/ others" information from the directly-tipped employee's TRAC Statement and showed it as "tips received from others."

Employee signs statement and gives a copy to employer, retaining a copy for his/her records. This statement would satisfy employer's requirement under the TRAC arrangement and the employee's requirement under the law.

"title"

How To Get Your Program Underway

How To Apply

To enter into one of the arrangements, you may call 1-800-829-4933 for the IRS Stakeholder Liaison Field office in your area. A Stakeholder Liaison can assist you with more information about the Tip Program. You may also obtain information by sending an e-mail to Tip.Program@irs.gov.

Who Should Apply

All employers with establishments where tipping is customary should review their operations. Then, if it is determined that there is or has been an underreporting of tips, the employer may apply for one of two arrangements under the *TRD/EP – TRAC* or *TRDA*.

Note: Employers currently under a TRDA, and wishing to switch to a TRAC, must first terminate their TRDA.

When to Apply

An employer may apply for either one of the two arrangements at any time. The effective date of the arrangement is determined by receipt and handling of the employer's application.

TRDA is effective as of the date the Employment Tax Territory Manager signs the arrangement.

TRAC is generally effective as of the first day of the quarter following the date the Stakeholder Liaison Area Manager signs the agreement.

For More Information

The following is a list of IRS publications and forms relating to tip income reporting that can be downloaded from the IRS Web site at www.irs.ustreas.gov and can be ordered through the IRS by dialing 1-800-829-3676.

Pub 505 – *Tax Withholding and Estimated Tax*

Pub 551 – *Reporting Tip Income*

Pub 1244 – *Employee's Daily Record of Tips and Report to Employer*. This publication includes **Form 4070**, *Employee's Report of Tips to Employer*, and **Form 4070A**, *Employee's Daily Record of Tips*.

Form 941 – *Employer's Quarterly Federal Tax Return*

Form 1040ES – *Estimated Tax for Individuals*

Form 4137 – *Social Security and Medicare Tax on Unreported Tip Income*

Form 8027 – *Employer's Annual Information Return of Tip Income and Allocated Tips*

Form 8846 – *Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips*

Form W-2 – *Wage and Tax Statement*; and separate *Instructions for Forms W-2 and W-3*





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