

# Awareness and Knowledge Gaps

- Improve tip reporting compliance by the employer and its employees
- Help employers, employees, and representatives understand the difference between a tip and a service charge
- Make employers and tax practitioners aware of Form 8027 information return compliance

# Tips include the following:

- Cash tips received from customers
- Tips employees receive from customers (on a debit, credit, or gift card)
- Value of any noncash tips, such as tickets, or other items of value employees get from customers
- Tips received from other employees paid out through tip pools or tip splitting, or other formal or informal tip sharing arrangements

# A Tipped Employee Must:

- Keep a daily tip record
- Report tips to the employer
  - Report due to employer by 10<sup>th</sup> of month following month tips are received
- Report all tips on an individual income tax return

# Directly or Indirectly Tipped Employees

- Directly tipped employee
  - Receives tips directly from customers
  - Examples: waiter, waitress, bartender, hair stylist
- Indirectly tipped employee
  - Receives tips from other tipped employees
  - Examples: busser, cook, service bartender, salon shampooer

# Employer's Responsibilities

- Retain employee tip reports
- Withhold income taxes and the employee share of social security and Medicare taxes
- Report this information and pay the taxes to the IRS
- Pay the employer share of social security and Medicare taxes based on the total wages paid to tipped employees and tips reported.

# Additional Medicare Tax

Beginning in 2013, a 0.9% Additional Medicare Tax applies to Medicare wages, Railroad Retirement Tax Act (RRTA) compensation, and self-employment income that are more than:

- \$125,000 if married filing separately,
- \$250,000 if married filing jointly, or
- \$200,000 for any other filing status.

# Tips & Additional Medicare Tax

Tips are subject to Additional Medicare Tax withholding, if, in combination with other wages paid by the employer, they exceed the \$200,000 withholding threshold.

# Additional Medicare Tax Resources

You can get more information on this topic by entering “Additional Medicare Tax” in the search box on [irs.gov](https://www.irs.gov)

- Questions and Answers
- Topic 560 – Additional Medicare Tax



Rev. Rul. 2012-18, 2012-26 I.R.B. 1032

Issued: June, 2012

- Clarification on the IRS' longstanding guidance on whether a payment is a tip or non-tip wages under section 3121 of the Code
- Reaffirmed that the criteria of Rev. Rul. 59-252, 1959-2 C.B. 215, should be applied

# Criteria For Payment To Be Characterized As Tip Wages

Absent the following factors the payment may be a service charge and not a tip:

- The payment must be made free from compulsion
- The customer must have the unrestricted right to determine the amount
- The payment should not be the subject of negotiation or dictated by employer policy
- Generally, the customer has the right to determine who receives the payment

# Service Charges

Fixed amount added by the employer to a customer's bill

Examples:

- Banquet event fee
- Cruise trip package fee
- Hotel room service charge
- Bottle service charge (nightclubs, restaurants)

# Form 8027

A large food or beverage establishment is

- It is located in the 50 states or the District of Columbia
- Food or beverage is for consumption on the premises
- Tipping is a customary practice
- The employer had more than 10 employees on a typical business day during the preceding calendar year

# When to File Forms 8027

- If you file paper Forms 8027 for 2014, file by March 2, 2015.
- If filing electronically, file by March 31, 2015
- Mail paper returns to:
  - Department of the Treasury
  - Internal Revenue Service
  - Cincinnati, OH 45999

# Tip Allocations

- Employer allocates tips if employees do not report a minimum amount of tips
- Amount allocated is difference between the total tips reported by employees and 8% (or the approved lower rate) of the gross receipts
- Only applies to a large food or beverage establishment

# Resources for More Information

- Publication 531, Reporting Tip Income

This publication is for employees who receive tips.

- Publication 1244, Employee's Daily Record of Tips and Report to Employer
- Publication 15 (Circular E), Employer's Tax Guide
- Revenue Ruling 2012-18

[http://www.irs.gov/irb/2012-26\\_IRB/ar07.html](http://www.irs.gov/irb/2012-26_IRB/ar07.html)