

111 STATE STREET
BOSTON, MASSACHUSETTS 02109
TELEPHONE (617) 367-3250 ext 1412
FACSIMILE (617) 367-2511
lreed@bacallconniff.com

Topic 761 - Tips – Withholding and Reporting: Per IRS

Employees who receive tips of \$20 or more in a calendar month while working for you, are required to report to you the total amount of tips they receive. They must give you written reports by the tenth of the following month. Employees who receive tips of less than \$20 in a calendar month are not required to report their tips to you.

Employees must report to you cash tips received directly from customers, tips from other employees, and tips customers charge to their bills. **Service charges added to a bill and paid to your employees are not considered tips for tax reporting purposes. These service charges constitute wages for purposes of social security, Medicare, and income taxes.**

Employees can use Form 4070A, Employee's Daily Record of Tips, to keep a daily record of their tips and Form 4070, Employee's Report of Tips to Employer, to report their tips to you. Both of these forms are in Publication 1244 (PDF), Employee's Daily Record of Tips and Report to Employer.

When you receive the tip report from your employee, use it to figure the amount of social security, Medicare, and income taxes to withhold for the pay period on both wages and reported tips. You are responsible for paying the employer's portion of the social security and Medicare taxes. You must collect the employee's portion of the social security and Medicare taxes and the income taxes. You can collect these taxes from the employee's wages or from other funds the employee gives you up to the close of the calendar year. If you don't have enough money from the employee's wages and other funds, apply the amounts available in the following order. First, withhold all taxes due on regular wages. Second, withhold social security and Medicare taxes due on reported tips. Finally withhold any federal, state or local income taxes on reported tips. You can withhold any remaining unpaid taxes from the employee's next paycheck. If you cannot collect all of the employee's social security and Medicare taxes on tips, show the uncollected amount in the appropriate box on the employee's Form W-2, Wage and Tax Statement. Also, show the uncollected amount as an adjustment on your employment tax return (e.g., Form 941 (PDF), Employer's Quarterly Federal Tax Return).

When preparing your employee's Form W-2, include wages, tips and other compensation in the box labeled "Wages, tips, other compensation". Include Medicare wages and tips, and social security tips in their appropriate boxes.

When figuring your liability for federal unemployment tax, add the reported tips to your employee's wages.

If you operate a large food or beverage establishment where tipping is customary, and food or beverage is provided for consumption on the premises, and you normally employ more than ten people who work more than 80 hours on a typical business day, you must file Form 8027 (PDF), Employer's Annual Information Return of Tip Income and Allocated Tips, for each calendar year. If you have more than one food or beverage establishment, you must file a separate Form 8027 for each. Form 8027 is due on the last day of February of the next year (or March 31st if you are filing electronically).

If the total tips reported by all employees are less than 8 percent of your gross receipts (unless a lower rate has been approved by the IRS), you must allocate the difference among the employees who received tips. The allocation may be based on each employee's share of gross receipts or share of total hours worked, or on a written agreement between you and your employees. Show the amount allocated in the box labeled, "Allocated Tips", of the employee's Form W-2. Do not withhold income, social security or Medicare taxes on allocated tips.

If you are required to allocate tips, your employees must continue to report all tips to you, and you must use the amounts they report to figure payroll taxes.

Employers may participate in the Tip Rate Determination and Education Program. The program primarily consists of voluntary agreements developed to improve tip income reporting by helping taxpayers to understand and meet their tip reporting responsibilities. These voluntary compliance agreements offer many benefits for the employer and the employee. Two of the agreements are the Tip Rate Determination Agreement (TRDA) and the Tip Reporting Alternative Commitment (TRAC). A tip agreement, the Gaming Industry Tip Compliance Agreement (GITCA), is available for the Gaming (casino) industry. Additionally, the IRS is offering an expanded tip reporting and education program for food and beverage industry employers called the Attributed Tip Income Program (ATIP). ATIP has simple enrollment requirements and procedures. To find out more about the program or to identify the IRS contact for your state, call the IRS at 800-829-4933. To get more information about ATIP, GITCA, TRDA, or TRAC agreements, access the IRS website at www.irs.gov and search for Market Segment Understanding (MSU) agreements: search for keyword "MSU tips". You can also get [Publication 1461](#), ATIP - Attributed Tip Income Program.

For more information on employer responsibilities, refer to [Publication 15](#), (Circular) E, Employer's Tax Guide. For more information on employee responsibilities, refer to [Publication 531](#), Reporting Tip Income.

Page Last Reviewed or Updated: March 18, 2010