

TAX ON EMPLOYEE TIPS



Whitepaper

It is important to understand the way HMRC defines tips and service charges to ensure the correct tax treatment is applied:



TIP

A spontaneous uncalled for payment by cash or card.



SERVICE CHARGE

An amount added to the bill. We would strongly recommend this is marked clearly as being a discretionary charge i.e. optional. If this is not the case then HMRC deem the service charge to be mandatory and this will affect the tax treatment as detailed below.



VAT TREATMENT

Tips and discretionary service charges are outside the scope of VAT.

Remember to clearly mark the charge as optional to the customer.

Mandatory service charges are standard rated (i.e. VAT is charged at 20%).

PAYE & NATIONAL INSURANCE (NI)

If customers give cash tips directly to your employees or leave them on the table and individual employees keep them without any involvement from the employer, then PAYE does not apply and the tip is exempt from NI (*nb. The employee will be responsible for informing HMRC of any such income*).



PAYE must be operated on tips collected and paid to employees as part of their normal payroll and will be liable for both employer and employee NICs.

TRONC



A tronc is a special pay arrangement whereby a "Troncmaster" distributes tips, gratuities and service charges to employees. The Troncmaster is responsible for operating a PAYE scheme separate and independent to the employer's. If your business has such an arrangement in place please contact us for further advice.

If you would like to discuss any of the above in more detail or for further information please give Edward Sanford a call on 0207 183 6089 or email him at edward.sanford@chadsan.com.