

Tips, gratuities, service charges and tronc

Introduction

Your employees have to pay Income Tax on any tips they receive, but they may not have to pay National Insurance contributions. They will usually pay the tax and any National Insurance contributions through PAYE (Pay As You Earn).

Tips

A 'tip' is a payment that is freely given by the customer, normally in return for services. A compulsory service charge is not a tip because it is not freely given.

How an employee's tax is worked out, and whether National Insurance contributions are due, depends on the arrangements involving:

- who the tips are given to
- who decides how they're shared out

Cash tips paid directly to employees by the customer

If a customer gives a cash tip directly to an employee without involving the employer, the employee is responsible for declaring the income and paying tax, but there is no liability for National Insurance contributions.

The employee is responsible for telling HM Revenue & Customs (HMRC) about these tips and must show them on their Self Assessment tax return (if they fill one in). They will need to keep a record of the tips received in order to do this.

Most people don't have to fill in a tax return. In these cases, HMRC will estimate the tips likely to be given and provide a tax code that will collect the tax through PAYE.

Tips paid as part of a card or cheque payment

Some customers may pay their bill by cheque or credit/debit card and add a tip / gratuity to the payment.

If you decide to pass on cheque and credit/debit card tips to your employees you can do so directly, or put the money into a 'tronc' (or pool) which shares out tips amongst the staff who are tronc members.

If you pass the tip on to your employees directly:

- it's your responsibility to collect tax on it through PAYE
- if you decide how the tips should be shared out, then National Insurance contributions are due and it's always the employer's responsibility to collect these through PAYE
- if you do not decide or influence how the money is shared out amongst the employees, but leave this to the employees then National Insurance contributions won't be due

If you pass on tips paid as part of a credit card or cheque payment via a tronc or pooling arrangement, the rules in the section below apply.

Tips paid into a tronc and shared by staff

Sometimes tips are pooled and then shared out between all the staff. This is known as a tronc and the person who shares out the tips is called a 'troncmaster'.

When the tips are shared out, the troncmaster has to deduct Income Tax from them through PAYE.

The rules on National Insurance contributions where there are tronc arrangements in place are as follows:

- If you, the employer, decide either directly or indirectly, how the tips are shared out, employees will have to pay National Insurance contributions on them as well as tax. You will have to collect the National Insurance contributions through PAYE, not the troncmaster
- if you do not decide, either directly or indirectly, how the tips are allocated to employees through the tronc, National Insurance contributions won't be due

It is an employer's responsibility to tell HMRC if there's a tronc and who the troncmaster is. The troncmaster is the one responsible for collecting the Income Tax through PAYE.

Service charges

A service charge is an amount added to the bill before it's given to the customer. A compulsory service charge is not a tip. If you give it to your employees it's treated in the same way as their wages and they will pay tax and National Insurance contributions on it.

If it's a voluntary service charge, it's treated in the same way as a tip. The liability for tax and National Insurance contributions on it depends on whether it is:

- cash that is paid direct to by the customer and that an employee keeps
- added to a card or cheque payment
- pooled in a tronc

Bonuses

If you pay employees a bonus it's just part of their pay for the job. They will pay tax and National Insurance contributions on it through PAYE and it will be included on employee payslips with the rest of their pay.