



CLIENT INFORMATION GUIDE

Section: Payroll & Taxes

Topic: Tip Income

In situations where a food or beverage service establishment employs a tipped employee (one “engaged in an occupation in which he customarily and regularly receives more than \$30 a month in tips”), the employer is permitted to credit the employee’s reported tips against the employer’s minimum wage obligation.

The employer must pay a minimum cash wage, but the difference between that cash wage and the prevailing standard minimum wage can be made up by the employee’s reported tips. If the reported tips do not bring the hourly wage to the level of the prevailing standard minimum wage, the employer must make up the short-fall.

For those employers who are subject only to Federal minimum wage requirements, the minimum cash wage for tipped employees is \$2.12. The employee must report tip earnings which, when added to the cash wage, bring the total wage up to the level of the Federal minimum wage. (\$6.55, effective 07.24.08. \$7.25, effective 07.24.09).

There are states with a mandatory minimum wage which is greater than the Federal minimum wage, and/or states with a minimum cash wage rate different than that mandated by Federal law. You should contact Choice to determine what rates apply in your state of operation.

Effective 01.01.08, the state of Arizona’s minimum wage is \$6.90 and the minimum cash wage is \$3.90. Consequently the tip credit available is \$3.00/hour. (Arizona’s minimum wage is subject to adjustment each year on January 1st, based upon the annual change in the cost of living.)

Tipped employees must report their tip income to their employer at least once a month, and by no later than the 10th of the following month. However, an employer may require more frequent reporting and many require that the reporting align with their standard pay period.

The IRS provides a Form 4070, *Employee’s Report of Tips to Employer*, which may be used by the tipped employee. However, an employer may provide its own form for this purpose, or may use an electronic system for tip reporting, as long as the system provides a means to reasonably verify that the reporting is made by the employee and can provide a printed output of the reporting.

Food and beverage establishments with more than 10 employees must allocate tips if the amount of tips reported by the total group of tipped employees for a payroll period is less than 8% of the establishment’s gross sales which are subject to tips. The difference between the tip amount reported and 8% must be calculated and allocated to the employees and reported on the employees’ W-2 forms, Box 8 – although it is not subject to income tax withholding or social security, Medicare or unemployment taxes. No allocation is made for any employee whose reported tips equal at least 8% of that employee’s share of the establishment’s gross receipts.

Simply stated, if the across-the-board reported tips fall below 8% of the establishment’s receipts, the employer is required to allocate tips among those employees whose tips fall below 8% of their share of the gross receipts. If the establishment’s overall reported tips meet or exceed 8% of their gross receipts, allocation is not required.

Please contact your Choice representative if you have further questions on this matter.
