



What Cash Tips?

Do I really need to report all my employees cash tips? YES! Restaurant employees are required to report and pay taxes on all their wages including tips. Restaurant owners are responsible for withholding Federal and State income tax from employee wages (which includes tips) as well as FICA tax.

How do I get my employees to provide me their actual cash tips? Retrieve a "tip report" from each employee for every payroll period. At the end of each shift, require each tipped employee to input their cash tips prior to clocking out into the POS system or using Form 4070A "Employee's Daily Record of Tips".

How do I know if they are really giving me an accurate number? Do some sleuthing. If you have a POS system that tracks server sales by employee, you can determine if your servers are accurately reporting their tips. Each servers sales should include total credit card sales and total cash sales. A generated report should provide total charged tips and total reported cash tips. Calculate a tip percentage from the credit card information and then apply this percentage to the cash sales. This should give you an idea if your server is underreporting or not.

How does the IRS know if my restaurant is underreporting or not? An employer with more than 10 employees must file Form 8027 "Employers Annual Information Return of Tip Income and Allocated Tips" - Summarizes restaurants total sales, charged sales, charged tips and total reported tips. Any report that may show reported tips below 8% of gross receipts from food and beverage sales will be a red flag to the IRS. If this is the case you must allocate additional tip income to the W-2 of every tipped employee that reported less than 8% of their respective sales so their total reported income reflects this minimum 8% allocation.

So Im free and clear of an IRS audit if I report the 8%? NO! Even though the minimum is 8% do not consider this to be an avoidance of an IRS audit. The law is employees must report 100% of tip income no ifs, ands or buts.

The IRS is more and more putting the responsibility on the employer to educate and establish tip reporting procedures to their employees. Don't wait around for an IRS audit. Be proactive and begin tracking down the employees that may be underreporting each pay period. Set up a system to track daily tips and compare to gross receipts for the day to determine if employees are reporting all their tips.

It's a Fact

You may be able to recover FICA taxes paid on tips in excess of minimum wage. This is a business tax credit allowed by the IRS and may be requested on your business tax return by completing form 8846- Credit for Employer SS and Medicare Taxes Paid on Certain Employee Tips. This can amount to hundreds of dollars per employee each year. If you use a payroll company, they should be able to provide you with FICA Tip Credit report.