

How much do YOU have to Report for tips?



The answer is.....

100%

Restaurant Accounting Solutions has prepared this outline for restaurant employers and their employees as a tutorial guide in connection with educating you for tip income reporting requirements. You should always consult with your professional tax preparer for guidance and expertise regarding your individual tax situation.

How can I get more information?

The IRS provides the following publications and forms relating to tip income reporting. These materials can be downloaded from the IRS Web site at <http://www.irs.gov/pub/irs-pdf/p1244.pdf> or ordered through the IRS by dialing 1-800-829-3676. For TTY/TDD equipment access, dial 1-800-829-4059.)

Pub 505 – *Tax Withholding and Estimated Tax*

Pub 531 – *Reporting Tip Income*

Pub 1244 – *Employee's Daily Record of Tips and Report to Employers*. This publication includes

Form 4070, *Employee's Report of Tips to Employer*, and **Form 4070A**, *Employee's Daily Record of Tips*.

Form 1040ES – *Estimated Tax for Individuals*

Form 4137 – *Social Security and Medicare Tax on Unreported Tip Income*



Restaurant Accounting Solutions
The #1 Restaurant Accounting Solution

Tips on Declaring Tips

**If you wait tables, bus
tables, park cars,
tend bar, serve
cocktails, deliver
food, or entertain,
this guide is for
YOU!**

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Q&A's

1. Do I have to report all my tips to my boss?

If you received \$20.00 or more in tips in any one month, you should report *all* your tips to your employer so that federal income tax, social security and Medicare taxes, and maybe state income tax can be withheld.

2. Do I have to report *all* my tips on my tax return?

Yes. *All* tips are income and should be reported on your tax return.

3. I was told that I had to report only eight percent (8%) of my total sales as tips. Is this true?

No. You must report to your employer *all* (100%) tips you receive, except for the tips from any month that do not total at least \$20.00. The 8% allocation rule is a requirement placed on the employer.

4. Sometimes I don't get tips directly from customers, but rather from another employee. Do I need to report those tips?

Yes. Employees who receive tips from another employee are required to report "tip-outs." Employees often disburse tips out of their earned tips to another employee (tip-outs). Remember, *all* tips are taxable income.

5. Do I have to report tip-outs that I pay to other employees?

No. You report to your employer only the amount of tips you retain. However, you must maintain records of tip-outs with your other tip income (cash tips, charged tips, split tips, tip pool).

6. What records do I need to keep?

You must keep a running daily log of

all your tip income. You can use Publication 1244, Employee's Daily Record of Tips and Report to Employer, to record your tip income for one year. **Your daily log would be your best proof should your income tax return be questioned.**

7. What can happen if I do not keep a record of my tips?

If it is determined in an examination that you underreported your tip income, the IRS will assess the taxes you owe based on the best available records of your employer. Tip income adds up. Underreporting could result in your owing substantial taxes, penalties, and interest.

8. If I report all my tips to my employer, do I still have to keep records?

Yes. You should keep a daily log of your tips so that in case of an examination, you can substantiate the actual amount of tips received.

9. If I report all my tips but my taxes on the tips are greater than my pay from my employer, how do I pay the remaining taxes?

You can either pay the tax when you file your federal income tax return or you can reach into your tip money and give some to your employer to be applied to those under-withheld taxes. The employer will then record these taxes and you will get credit on your Form W-2. If you wait to pay when you file your tax return, you may be subject to an estimated tax penalty.

10. What can happen if I don't report my tips to the IRS?

If the IRS determines through an examination that you underreported your tips, you could be subject to additional federal income tax, social security and Medicare taxes, and maybe state income tax. Also, a penalty of 50% of the additional social security and Medicare taxes, and a negligence penalty of 20% of the additional income tax, plus interest, may apply.

11. Why should I report my tips to my employer?

- When you report your tip income to your employer, the employer is required to withhold federal income taxes, social security and Medicare taxes, and maybe state income tax. Tip reporting may increase your social security credits resulting in greater social security and Medicare benefits when you retire.
- Tip reporting may also increase other benefits to which you may become entitled, such as unemployment benefits, worker's compensation, or retirement benefits. Additionally, a greater income may improve financing approval for mortgage, car, and other loans.



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