

Publication 3144

Tips on Tips

**A Guide to Tip Income Reporting for
Employers in Businesses Where Tip Income
is Customary**





If you are an employer of an employee who receives tip income, this guide is for you.

The Internal Revenue Service (IRS) began its Tip Rate Determination/Education Program (TRD/EP) in October 1993 for businesses where tip income is customary. The objective of the Program has been to improve and ensure compliance by employers and employees with statutory provisions relating to tip income.

The Program of Tip Reporting

What tip reporting options are available?

- Tip Rate Determination Agreement (TRDA)

- Tip Reporting Alternative Commitment (TRAC)
- Institute your own reporting system to comply with the tax law
- Gaming Industry Tip Compliance Agreement (GITCA)

Under the Tip Rate Determination/Education Program (TRD/ EP), the employer may enter into a TRDA, a TRAC, or GITCA agreement, depending on the specific business. The IRS will assist applicants in understanding and meeting the requirements for participation. The next pages show how these agreements differ.

How does the program benefit my employees?

There are a number of reasons why an employee should report all of his/her tip income:

- Increased income may improve financial approval when applying for mortgage, car, and other loans

- Increased social security and Medicare benefits (the more you pay, the greater the benefits)
- Increased unemployment compensation benefits
- Increased employee pension, annuity, or 401(k) participation (if applicable)
- Increased workers' compensation benefits, should your employees get hurt on the job



How To Get Your Program Underway

How To Apply

To enter into one of the agreements by sending an e-mail to Tip.Program@irs.gov.

Who Should Apply

Currently, the IRS is offering participation in TRD/EP to employers who employees receive tip income in the normal course of your business. These agreements accommodate every tipping industry.

All employers with establishments where tipping is customary should review their operations.

When To Apply

An employer may apply for one of the agreements, depending on his/her specific business, at any time. The effective date of the arrangement is determined by receipt and handling of the employer's application.

TRAC and TRDA are effective as of the first day of the quarter following the date the National Tip Reporting Compliance (NTRC) Program Manager signs the agreement.

The GITCA is effective on a mutually agreed upon date, generally the first day of a pay period.



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TRDA vs. TRAC vs. GITCA (how they differ)

TRAC	TRDA	GITCA
<p>TRAC does not require that a tip rate be established but it does require the employer to:</p> <ul style="list-style-type: none">■ establish a procedure where a directly-tipped employee is provided (no less than monthly) a written statement of charged tips attributed to the employee.■ implement a procedure for the employees to verify or correct any statement of attributed tips.■ adopt a method where an indirectly-tipped employee reports his or her tips (no less than monthly). This could include a statement prepared by the employer and verified or corrected by the employee.■ establish a procedure where a written statement is prepared and processed (no less than monthly) reflecting all cash tips attributable to sales of the directly-tipped employee.	<p>TRDA requires the IRS to work with the establishment to arrive at a tip rate for the establishment's various occupations.</p>	<p>GITCA requires the IRS to work with the establishment to arrive at a tip rate for the establishment's various occupations.</p>
<p>TRAC does not require an agreement between the employee and employer.</p>	<p>TRDA requires the employee to enter into a Tipped Employee Participation Agreement (TEPA) with the employer.</p>	<p>GITCA requires the employee to enter into a Model Gaming Employee Tip Reporting Agreement with the employer.</p>

TRAC	TRDA	GITCA
TRAC affects all (100%) employees.	TRDA requires the employer to get 75% of the employees to sign TEPAs and report at or above the determined rate.	GITCA requires the employer to get 75% of the employees to sign Model Gaming Employee Tip Reporting Agreements and report at or above the determined rate.
TRAC provides that if the employees of an establishment collectively underreport their tip income, tip examinations may occur but only for those employees that underreport.	TRDA provides that if employees fail to report at or above the determined rate, the employer will provide the names of those employees, their social security numbers, job classification, sales, hours worked, and amount of tips reported.	GITCA provides that if employees fail to report at or above the determined rate, the employer will provide the names of those employees, their social security numbers, job classification, sales, hours worked, and amount of tips reported.
TRAC includes a commitment by the employer to educate and reeducate quarterly all directly and indirectly-tipped employees and new hires of their statutory requirement to report all tips to their employer.	TRDA has no specific education requirement.	GITCA has no specific education requirement.
TRAC participation assures the employer that prior periods will not be examined as long as participants comply with the requirements under the agreement.	TRDA participation assures the employer that prior periods will not be examined as long as participants comply with the requirements under the agreement.	GITCA participation assures the employer that prior periods will not be examined as long as participants comply with the requirements under the agreement.

Example of a TRAC Statement

Use the following “example” to help you develop your statement for your specific business, and provide a copy to your employees. (The following example is designed specifically for employees in the food and beverage industry.) A TRAC statement is given to an employee showing tips attributed to him/her. This example not only fulfills the statement required for charged tips but also for cash tip reporting and for indirectly-tipped employee reporting.



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“title”	<div><div>Employer Portion</div><div><div>Employee Name:</div><div>Mark Doe</div></div><div><div>Employee Address:</div><div>123 Main Street</div></div><div><div>City, State, Zip:</div><div>Any Town, USA 12345</div></div><div><div>Employee SSN:</div><div>000-00-000</div></div><div><div>Job Category:</div><div>Food Server</div></div><div><div>Establishment Name:</div><div>ABC Bar & Grill</div></div><div><div>Employer EIN:</div><div>00-0000000</div></div><div><div>Report Period:</div><div>01/01/00 - 01/31/00</div></div><div><div>Gross Sales:</div><div>\$6,000</div></div><div><div>Charged Sales w/Tips</div><div>\$2,000</div></div><div><div>Charged Tips;</div><div>\$380</div></div><div><div>Charged Tip Rate</div><div>19%</div></div><div><div>Sales Subject to Cash tips</div><div>\$4,000</div></div></div>	<div>Employer fills out top portion.</div> <div>Gross Sales: only include food & drink amount. Do not include tax, tip, or non-food/drink items.</div> <div>Charged Sales: include charged sales that show a tip on food & drink amounts only. Do not include tax, tip or non-food/drink items. (A charged sale with no tip is included as a cash sale.)</div>
	<div><div>Employee Portion</div><div><div>Cash Tips</div><div>\$720</div></div><div><div>Cash Tip Rate</div><div>18%</div></div><div><div>Tips Shared w/Others</div><div><div><div>Name:</div><div>Johnny Noname</div></div><div><div>Job Category:</div><div>Busser</div></div><div><div>Amount:</div><div>\$120</div></div></div><div><div>Total</div><div>(120)</div></div><div><div>Tips Recieved from Others</div><div><div><div>Name:</div><div>Susie Cue</div></div><div><div>Job Category:</div><div>Cocktail</div></div><div><div>Amount</div><div>\$100</div></div></div><div><div>Total</div><div>100</div></div><div><div>Net tips kept and reportable:</div><div>\$1,080</div></div><div><div>Employee Signature:</div><div>Mark Doe</div><div>Date:</div><div>3/23/15</div></div></div></div></div>	<div>Employee fills out bottom portion. An indirectly-tipped employee would only receive (from the employer) the “title” portion of the statement filled out, unless employer captured “tips shared w/others” information from the directly-tipped employee’s TRAC Statement and showed it as “tips received from others”.</div> <div>Employee signs statement and gives a copy to employer, retaining a copy for his/her records. This statement would satisfy employer’s requirement under the TRAC arrangement and the employee’s requirement under the law.</div>

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Forms and Publications

The following is a list of IRS publications and forms relating to tip income reporting that can be downloaded from the IRS Web site at www.irs.ustreas.gov and can be ordered through the IRS by dialing 1-800-829-3676. (TTY/TDD equipment access, dial 1-800-829-4059).

- **Publication 505** – Tax Withholding and Estimated Tax
- **Publication 531** – Reporting Tip Income
- **Publication 1244** – Employee's Daily Record of Tips and Report to Employer. This publication includes Form 4070, Employee's Report of Tips to Employer, and Form 4070A, Employee's Daily Record of Tips.
- **Form 941** – Employer's Quarterly Federal Tax Return
- **Form 1040ES** – Estimated Tax for Individuals

- **Form 4137** – Social Security and Medicare Tax on Unreported Tip Income
- **Form 8027** – Employer's Annual Information Return of Tip Income and Allocated Tips
- **Form W-2** – Wage and Tax Statement; and separate Instructions for Forms
- **W-2 and W-3**