

Tips and gratuities

How tax applies to tips (gratuities) you receive or distribute to your employees or contractors.

FOR BUSINESSES IN SERVICE INDUSTRIES

To ensure your records are consistent and you are meeting your record keeping requirements, we recommend you develop and apply a written policy to deal with tips you collect and distribute. At a minimum, this policy should cover:

- how you collect and record tips you receive from customers
- how you distribute tips to your staff
- how often you distribute the tips to staff
- how you will resolve any disputes about the policy.

VOLUNTARY TIPS

If your business is registered for goods and services tax (GST) and you receive tips that are voluntarily paid, you do not have to:

- pay GST on the tips you pay to your employees or contractors
- report the tips you pay to your employees or contractors as income on your activity statement or income tax return.

However, you must keep records that show the tips have been paid to your employees and contractors.

You do not claim a tax deduction for the tips you pay to your employees or contractors that you do not also report as income.

If your business is registered for GST and you receive tips that are voluntarily paid but you do not pay all of these tips to your employees or contractors, you must:

- pay GST on the tips you keep as your business takings
- report this income on your activity statement and your income tax return.

You do not have to deduct pay as you go withholding (PAYGW) from the tips you pay to your employees or include these payments on your employees' annual payment summaries.

If a contractor does not provide you with an Australian business number (ABN), you must withhold 46.5% from the tips you pay to them unless one of the exceptions to withholding applies and you must include these payments on a no-ABN withholding summary. If one of the exceptions applies, the contractor can give you a *Statement by a supplier* or a written statement to that effect – you should keep a copy for your records.

➤ For more information about the exceptions to withholding and what you must do if you need to withhold, refer to *Statement by a supplier (reason for not quoting an ABN to an enterprise)* (NAT 3346).



NON-VOLUNTARY TIPS

If your business is registered for GST and you receive tips that are non-voluntary (for example, for a pre-set amount, a surcharge or a service charge), you must:

- pay GST on these tips
- report this income on your activity statement and your income tax return.

If you pay these tips to your employees or contractors, you can usually claim a tax deduction for the amount you pay.

You must deduct pay as you go withholding (PAYGW) from the non-voluntary tips you pay to your employees and include these payments on your employees' annual payment summaries.

If a contractor does not provide you with an ABN, you must withhold 46.5% from the non-voluntary tips you pay to them unless one of the exceptions to withholding applies and you must include these payments on a no-ABN withholding summary. If one of the exceptions applies, the contractor can give you a *Statement by a supplier* or a written statement to that effect – you should keep a copy for your records.

➤ For more information about the exceptions to withholding and what you must do if you need to withhold, refer to *Statement by a supplier (reason for not quoting an ABN to an enterprise)* (NAT 3346).

EMPLOYEES

Generally, employment laws do not treat tips from customers as part of your employees' salary or wages. However, any tips they receive and keep, either directly from customers or distributed by you, must be reported as income if they need to lodge an income tax return.

If your employees pay their tips to you, they only need to report as income the amount of tips they keep and that you distribute back to them.

Your employees must report their tips as income from working at **Question 2, Allowances, earnings, tips, director's fees, etc.**, on their income tax return.

CONTRACTORS

Any tips your contractors receive and keep, either directly from customers or distributed by you, must be reported as income if they need to lodge an income tax return.

If your contractors pay their tips to you, they only need to report as income the amount of tips they keep and that you distribute back to them.

Your contractors must report their tips as business income by completing the **Business and Professional Items schedule** and submitting it with their income tax return.

If your contractor is registered for GST, they must report any tips they receive as income on their activity statement and pay one-eleventh in GST.

If your contractor does not quote an ABN to you, you must:

- withhold 46.5% from each payment of tips you make to them
- report the amount you withhold from them on a no-ABN withholding summary, unless one of the exceptions to withholding applies.

If one of the exceptions applies, your contractor can give you a *Statement by a supplier* or a written statement to that effect – you should keep a copy for your records.

➤ For more information about the exceptions to withholding and what you must do if you need to withhold, refer to *Statement by a supplier (reason for not quoting an ABN to an enterprise)* (NAT 3346).

MORE INFORMATION

We have a range of other publications to help you meet your tax obligations, including:

- *Record keeping in the service industry* (NAT 11008)
- *Record keeping in the restaurant and catering industry* (NAT 12661)
- *Record keeping in the pubs and clubs industry* (NAT 13360)

To obtain a copy of our publications, visit **www.ato.gov.au/publications** or phone **1300 720 092** and quote the details above.

ELECTRONIC TOOLS

Record keeping evaluation tool – a free program to help you understand what business records you need to keep and evaluate how well you are keeping them. It can also generate a report that includes suggestions for improvement. Visit **www.ato.gov.au/recordkeeping** to download a copy.

e-Record – an electronic record keeping tool to help you keep proper records, keep track of your GST and complete your business activity statements. To obtain a copy, visit our website at **www.ato.gov.au/erecord** or phone **1300 139 051** for a copy of the CD (NAT 3043).

For more information:

- visit our website at **www.ato.gov.au**
- phone **13 28 66** for business enquiries
- phone **13 10 20** for superannuation enquiries.

If you do not speak English well and want to talk to a tax officer, phone the Translating and Interpreting Service on **13 14 50** for help with your call.

If you have a hearing or speech impairment and have access to appropriate TTY or modem equipment, phone **13 36 77**. If you do not have access to TTY or modem equipment, phone the Speech to Speech Relay Service on **1300 555 727**.

OUR COMMITMENT TO YOU

We are committed to providing you with advice and guidance you can rely on, so we make every effort to ensure that our publications are correct.

If you follow our guidance in this publication and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we must still apply the law correctly. If that means you owe us money, we must ask you to pay it but we will not charge you a penalty. Also, if you acted reasonably and in good faith we will not charge you interest.

If you make an honest mistake in trying to follow our advice and guidance in this publication and you owe us money as a result, we will not charge you a penalty. However, we will ask you to pay the money, and we may also charge you interest.

If correcting the mistake means we owe you money, we will pay it to you. We will also pay you any interest you are entitled to.

You are protected under GST law if you rely on any GST advice in this publication. If you rely on this advice and it later changes, you will not have to pay any extra GST for the period up to the date of the change.

If you feel that this publication does not fully cover your circumstances, or you are unsure how it applies to you, you can seek further assistance from us.

We regularly revise our publications to take account of any changes to the law, so make sure that you have the latest information. If you are unsure, you can check for a more recent version on our website at **www.ato.gov.au** or contact us.

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