



WAITERS & WAITRESSES Tax Deductions

Adequate tip records are a must for employees who receive tips, especially waiters and waitresses who work in “large food and beverage establishments” (i.e., food service operations with 10 or more tipped employees). These establishments often assign tips to employees, based on a percentage of the employees’ sales and the amount of tips each employee has reported to the establishment. These are called “allocated tips” and employers must report them to the IRS. If the IRS questions the employee’s tips, it’s up to the tipped employee to show, through good records, that the allocated tip amount is in error.

Keeping a Good Tip Record

If you are a waiter or waitress, the IRS requires you to keep a record of your tips. The record needs to include tips you receive from:

- *your customers in cash;*
- *other tipped employees because of a “tip sharing” arrangement; and*
- *your customers who pay by credit card*

When you receive a tip but pay part of it to someone else (for example, a bartender), you should note the name of that person in your tip record along with the amount you paid him/her. You should keep your record updated on a day-to-day basis to make sure of its accuracy.

Reporting Tips to Your Employer

In order to comply with IRS rules, you need to let your employer know the total amount of tips you receive. This reporting should be done in writing within the 10-day period following the end of the month in which you receive the tips (sometimes the due date is extended a day or so if the last day of the 10-day period is on a weekend or legal holiday).

Once you make the report to your employer, he/she adds the amount to your regular wages and uses the total to figure how much income tax, Social Security tax and Medicare tax to withhold from your regular paycheck.

Tips Not Reported to Your Employer

Special rules apply to tips you received but didn't, for one reason or another, report to your employer. If such tips total \$20 or more in any given month while working for one employer, you will need to figure your own Social Security and Medicare taxes for them. These taxes are computed and paid with your tax return. Keep in mind that the IRS can also charge a penalty for tips that aren't reported to an employer.

Record of Tips

According to the rules, your tip records need to clearly establish the tips you received. That's why a timely day-to-day record is so important. The form below contains all the information you will need and has room for an entire month's entries. You may make as many copies of the form as you need so that you will have a permanent record of your tips for the entire year.

Please see below for a sample chart that can be used to document tips.

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Not every item in our library will be applicable to your situation. If you need further advice, please feel free to give us a call any time at (608) 756-5354. Summit Accounting Group Inc. of Janesville, Wisconsin

RECORD of Tips

Date Tips Rec'd	Date of Entry	Tips Received Directly from Customers and Other Employees	Credit Card Tips Received	Tips Paid Out to Other Employees	Names of Employees to Whom You Paid Tips
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
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TOTALS					