Your guide to tips and tronc.

Tips and gratuities are a fact of life for those working in, and running, hospitality businesses. Traditionally these were given in cash, but with card use becoming much more prevalent after COVID, many hospitality businesses are looking at how best to manage tips and gratuities for their employees. We take a look at some of the options.

ROSLYNS GROUP

The Hospitality Business specialists

Tipping

Tips/gratuities have always been a hotly disputed topic in the hospitality industry.
Some big-name companies have been publicly criticised for taking a cut of tips to cover the cost of processing them, others have been criticised for managers taking a share of tips.

How we tip has changed too with government research from 2021 concluding that 80% of tips are now given through cards.

Regulation of some form or another was becoming inevitable and now with the Employment (Allocation of Tips) Bill 2022-23 it seems that this process if getting closer than ever.
Essentially the bill would amend the Employment Rights Act 1996 to insert new legal obligations on employers. Employers would be required to ensure that all tips, gratuities and service charges they receive (or exercise control over) must be paid to workers in full without deductions, and by the end of the following month. It would also introduce obligations to ensure the fairness of arrangements to distribute those tips among workers, either when distributed by the employer or via an independent tronc scheme (more on tronc later).

It is important that hospitality businesses get their polices on tips and service charges in order, not only to get ahead of forced compliance, but also for the wellbeing of their employees and their public reputations.

Tips and tronc

Tips/gratuities form a part of your employees' income and therefore, are liable to income tax. The usual way a customer would tip pre-covid was by cash. An employee's share of this should then be added to their pay on their payslip.

Some employers wouldn't do this in order to help the employee save some tax and would allow them to simply keep their share as untaxed cash. As you will assume, this practise is frowned upon by HMRC.

Now, post-covid, most customers have stopped using cash and are tipping using their cards. This means that no matter what system you were previously using to distribute tips, it may well have got a bit more complicated, and a lot more traceable. With HMRC having recently invested heavily in tax investigation teams, now is the time to make sure that you're managing your employee's tips and gratuities correctly.

So, what are my options?

1. **Pay cash-in-hand straight to employees**
2. **Add all tips to payroll**
3. **Use a Troncmaster**
4. **TipJar system**

Let's look at some pros and cons of each option

Tips and tronc

Some options

1. Pay cash-in-hand straight to employees

Whilst we know this is common practise, for reasons that should be obvious, we would not recommend this. Paying cash outside of the tax system is in breach of the rules and could leave you open to fines and/or a costly full tax investigation.

2. Add all tips to payroll

This would mean that all tips, card and cash are allocated to employees, and that amount is then submitted to HMRC as additional pay. This means there will be tax & national insurance on the tips for the employee, and additional national insurance for the employer.

3. Use a troncmaster

In simple terms, a tronc scheme is where gratuities are processed on behalf of employees by either the employer, or someone separate from the employer, called the troncmaster.

If an employer uses a troncmaster, they must tell HMRC that they are doing so and who the troncmaster is. The main difference between tronc and option 2 above, is that if the employer is not directly allocating the tips/gratuities then they are not required to pay additional N.I. on this money.

4. TipJar system

A relatively new option, TipJar is a software solution that allows tips to be given through countertop devices or QR codes. The system then allots shares of tips according to your employee's wishes and pays directly into their bank account. The employee is responsible for telling HMRC about this additional income. There are other similar systems, TipJar is simply one of the better known and more established.

Tips and tronc

Pros and cons

	PROS	CONS
Paying cash-in-hand	Might save you tax	It is not legal
	Might save employee tax	Card tips have to be replaced by cash, meaning you pay for the card transaction cost.
Adding all tips to payroll	Legal	You pay a little more employers N.I.
	Simple	Employee might pay a little more N.I.
Using a Troncmaster	Can save you on additional N.I.	Costs more to process payroll with tronc
	Employees make their own decisions on tips	Relies on use of a troncmaster to save any additional N.I.
Using TipJar system	Simple for customers to tip electronically	Does not handle cash tips
	Once decided, allocations go straight to the employee's account	Setup, transaction % and daily venue fees.
	Less involvement for the employer	

Tronc

Of all the options you have, tronc is probably the one that is the least well understood. Many employers think they have a tronc system in place when in reality, they are simply adding gratuities to wages and not receiving any N.I. benefit.

It is these N.I. benefits that makes tronc attractive to some employers, but to qualify, the employer can't be the one who makes the decisions on gratuity allocations.

How money is divided	What tax to pay
You decide how the tronc money is divided	You pay PAYE tax and NICs
The troncmaster decides how the money is divided	Troncmaster pays PAYE tax - no NICs are due
Someone else, who is not acting for you, decides how the payments are distributed	Troncmaster pays PAYE tax - no NICs are due

It should be noted that when troncmaster pays PAYE a new payroll scheme would be required for this, and this could increase payroll costs.

Other things to consider

It is important to consider many aspects when working out how to manage gratuities.

- Firstly, check it is actually tips/gratuities. A mandatory service charge is not the same and is treated as income which you may keep or share as you like. (Remember a mandatory service charge is VAT-able income)
- Secondly, remember, if you are operating a tips system believing it to be tronc, and are controlling how much tips go to the employees, then you are now involved, and cannot save on PAYE or NICs as it is not a true tronc scheme
- Lastly, bear in mind that tips/gratuities cannot form part of the national minimum wage. Your employees must receive NMW plus any tips/gratuities.

UPDATE: October 1st 2024

The UK government have introduced new regulations from **Tuesday 1st October 2024** to ensure fair and transparent distribution of tips, gratuities, and service charges to workers in the hospitality industry.

For example:

- **You must have a written tips policy**
- **Deductions cannot be taken for any costs**
- **You must keep records of all tips for 3 years**
- **Employers are responsible for fair distribution of all tips.**

Read our guide to the new tipping rules, including templates for your own tipping policy document here

Further support …

As specialists in business services to the hospitality sector, Roslyns can help every step of the way. Just click or prod your way to knowledge!

What taxes will my hospitality business pay?

How can I pay less tax?

What about my own income and taxes?

What do I need to do when employing staff?

Is stocktaking important in a hospitality business?

I've another question about hospitality business?

Links to the official government advice

Setting up as a sole trader
Setting up a limited company
Business taxes
Personal Taxes
Employer taxes

Please note: These guides are based on the 2020/21 tax year and are intended to outline the basic aspects of the topics addressed. Please take advice based on your specific situation and business. Contact us on support@roslyns.co.uk