

Your guide to tips and tronic.

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.



The Hospitality Business specialists

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 have 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



Some options

1. Pay cash-in-hand straight to employees

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. Tronc income is then declared on a separate payslip and they are taxed on this income.

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 NI 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.

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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	
	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 would 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, think about the 'optics' of your tips scheme.

While it may seem fair to keep a share of tips to cover waste/spillages, transaction charges or even the staff Christmas party, this could affect morale, with your employees seeing it as unfair.

The public often expect 100% of tips to go to staff and would be unlikely to understand your position on anything less than that.

Remember, if you are operating a tronc system and are controlling how much tips go to the employees, then you are now involved, and cannot save on PAYE or NICs.

💡 Lastly, bear in mind that tips/gratuities cannot form part of the national minimum wage. Your employees must receive NMW plus any tips/gratuities.

Whatever you choose to do with tips/gratuities, it is a good idea to formalise that system. Many businesses then publicise their scheme, so customers know what happens to tips.

The government guide on the voluntary code gives some guidance and examples of how to word your scheme when publicising it to customers.

The guide is found [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