













# 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.



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

TRAC	TRDA	GITCA
<ul> <li>TRAC does not require that a tip rate be established but it does require the employer to:</li> <li>establish a procedure where a directly-tipped employee is provided (no less than monthly) a written statement of charged tips attributed to the employee.</li> <li>implement a procedure for the employees to verify or correct any statement of attributed tips.</li> <li>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 employee.</li> <li>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 employed</li> </ul>	TRDA requires the IRS to work with the establishment to arrive at a tip rate for the establishment's various occupations.	GITCA requires the IRS to work with the establishment to arrive at a tip rate for the establishment's various occupations.
TRAC does not require an agreement between the employee and employer.	TRDA requires the employee to enter into a Tipped Employee Participation Agreement (TEPA) with the employer.	GITCA requires the employee to enter into a Model Gaming Employee Tip Reporting Agreement with the employer.

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.



-	Employer Portion		Employer fills out top portion.		
	Employee Name: <u>N</u>		Mark Doe		Gross Sales: only include
	Employee Address:	e Address: <u>123 Main Street</u>			food & drink amount. Do not include tax, tip, or non-food/
<u>،</u>	Employee SSN: 000-00		Any Town, USA 12345		
"title"			00-00-0	00	drink items.
3			Food Server		Charged Sales: include
	Establishment Name:	A	ABC Bar	& Grill	charged sales that show a tip
	Employer EIN:	<u>C</u>	00000-00	000	on food & drink amounts only.
_	Report Period:	С	01/01/00 -		Do not include tax, tip or non-
		<u>C</u>	)1/31/00		food/drink items.
					(A charged sale with no tip is
	Gross Sales:	\$	6,000		included as a cash sale.)
	Charged Sales w/Tips		52,000		,
	Charged Tips;	<u>\$</u>	5380		
	Charged Tip Rate				
	Sales Subject to Cash tip	os 🖞	64,000		
	Employee Portion	Employee fills out bottom			
	Cash Tips	<u>\$</u>	5720		portion. An indirectly-tipped
	Cash Tip Rate	<u>1</u>	8%		employee would only receive
					(from the employer) the "title"
	Tips Shared w/Others				portion of the statement filled
	Name:	Job Cat	egory:	Amount:	out, unless employer captured
	Johnny Noname	<u>Busser</u>		<u>\$120</u>	"tips shared w/others" infor-
	Total			(120)	mation from the directly-tipped
					employee's TRAC Statement
	Tips Recieved from Oth	and showed it as "tips received			
	Name:	Job Category: <u>Cocktail</u>		Amount	from others".
	Susie Cue			\$100	Employee signs statement
	Total			100	and gives a copy to employer,
					retaining a copy for his/her
	Net tips kept and report	able:	<u>\$1,080</u>	records. This statement would	
		satisfy employer's requirement			
	Employee Signature:	Mark i	Doe <sub>[</sub>	Date: <u>3/23/15</u>	under the TRAC arrangement and the employee's require- ment under the law.

### **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

#### Visit: www.IRSVideos.Gov Search: Tip Reporting



