

Restaurant TIP compliance program

If your business operates in an industry in which tipping is a customary practice, you may want to participate in one of the IRS's voluntary tip compliance programs. In exchange for your participation, the IRS will agree to refrain from auditing you for proper tip reporting. These new programs are worth considering.

IRS programs

Employers may participate in one of two voluntary tip compliance programs: the Tip Rate Determination Agreement (TRDA) or the Tip Reporting Alternative Commitment (TRAC). Under a TRDA, you and the IRS determine through estimates the amount of tips that your employees receive and the amount that should be reported to the IRS. Under a TRAC, you agree to educate your employees about the tax consequences of tip income and to establish tip reporting procedures.

Over the course of the past several years, TRDAs and TRACs have been developed for the food and beverage industry, the gaming industry and the cosmetology trade. The IRS reports that interest from other industries with tipped employees sparked development of a general TRDA and a general TRAC.

General TRDA and TRAC

The general TRDA and TRAC largely track their industry-specific siblings. In the general TRDA, an employer determines tip rates based on a formula or from other information sources. The IRS approves or rejects the proposed rates for the particular employer involved. If approved, the IRS agrees not to initiate any tip examinations of the employer for the life of the TRDA.

In the general TRAC, an employer agrees to train its workers to report all tips and to establish procedures to reflect all tips attributable to each employee. The procedures may be written or electronic and such reporting must be prepared and processed at least monthly. Current employees must receive quarterly training and new employees must receive immediate training. In return, the IRS agrees not to initiate any tip examinations of the employer for the life of the TRAC.

Another alternative

In addition to utilizing the IRS-developed TRAC, you are allowed to design your own voluntary tip compliance programs. The new program, known as EmTRAC, largely parallels the existing food and beverage TRAC.

Staying compliant

Those who are in businesses in which tip income plays a significant part should reconsider procedures and compliance measures already in place in light of the new programs coming out of the IRS. If you need any further explanation of these programs, or how they may best be approached to protect your business from unnecessary tax liability or audits, please do not hesitate to contact this office.