



EMPLOYMENT TAX UPDATE

Tips and Service Charges – are you compliant with the new rules?

New rules on staff tips – is your business compliant?



The Employment (Allocation of Tips) Act 2023 is a major change to how tips must be paid to employees in the UK.

The new rules add complexity, administration burden and cost for employers, in an already challenging economic climate.

Employers should ensure they fully understand the new rules and are compliant.

WHAT HAS CHANGED?

Under the new legislation:

- All tips and service charges must be paid in full to employees and cannot be subject to deductions by the employer. This includes all tips, whether paid in cash, cheque, by card or digitally.
- All workers, including agency workers and those on zero hour contracts, are protected by the new law.
- Employers must implement a written policy which sets out how tips will be distributed to staff in a fair and consistent manner, in adherence with a newly published Code of Practice.
- A record of how tips are distributed must be kept for up to 3 years, which employees can request to see.
- Tips must be paid to employees by the end of the month following the month in which the customer paid the tips.

WHEN DID THE CHANGES TAKE EFFECT?

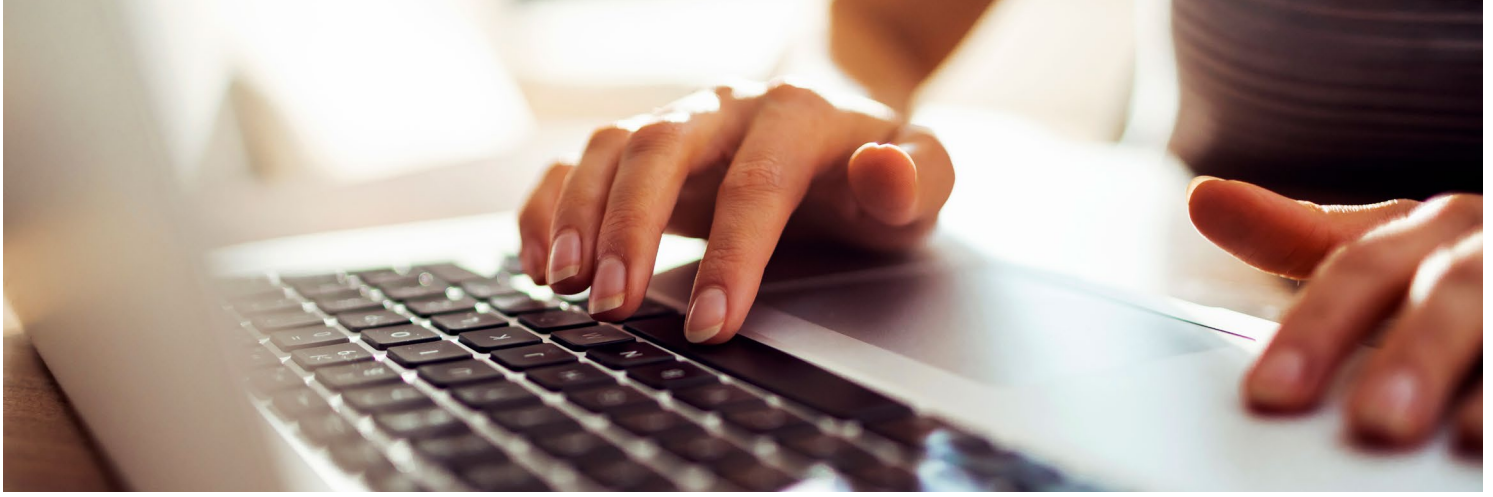
The new law came into effect on 1 October 2024. There is no transition period.

WHO MUST COMPLY?

- All businesses where employees regularly receive tips from customers, including hotels, bars, casinos and restaurants.

POINTS TO CONSIDER

- There is no transition period – Employers need to invest time and resources to ensure processes and policies are compliant.
- Tips do not count as earnings for National Minimum Wage purposes. However, many lower paid workers do rely on tips to supplement their wages, especially given the rising cost of living. As such, many employers are already under pressure to keep remuneration packages competitive to retain key staff; whilst also managing the business' budget and cash flow.
- Historically, many businesses deducted a proportion of tips to cover costs such as bank charges, fees and administration costs. This is prohibited from 1 October. Affected businesses are now faced with an additional direct cost and may have to decide whether to pass this on to customers.
- Employers may want to consider using a tronc to manage the distribution of tips, a key advantage of which is that tips paid out under a tronc will be exempt from Class 1 NIC.
- Existing tronc arrangements should be reviewed to ensure they are robust and compliant with the new rules.
- Non-compliance with the new rules can lead to employment tribunals, compensation due to employees and potential reputational damage.



New rules on staff tips – is your business compliant?



HOW CAN WE HELP?

A&M Tax can help you to understand how the new rules impact your business and support you in these changes; whether that involves reviewing existing procedures and tronc arrangements, or implementing a new policy. Our team of experienced professionals are on hand and happy to help.



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