

## **IRS to Count Automatic Gratuities As Wages, NOT Tips**

In a ruling issued in June 2012 the Internal Revenue Service clarified the difference between a tip and a service charge for tax purposes under the Federal Insurance Contributions Act. The IRS determined automatic gratuities (a percentage automatically added to a restaurant bill) are service charges, rather than tips for tax purposes.

Revenue Ruling 2012-18 also determined that to the extent any portion of a “service charge” is distributed to an employee, it is wages for FICA tax purposes.

Although the ruling took effect last year, the IRS understood some businesses needed to make significant changes to their automated or manual tip reporting systems in order to comply, so it provided that, in specified limited circumstances, the distinction could be applied by regulators beginning Jan. 1, 2013. Employers must be fully aware of the implications of the ruling.

For more information, please contact the Delaware Restaurant Association at 302-738-2545 or [carrie@delawarerestaurant.org](mailto:carrie@delawarerestaurant.org).

(Source: DE Restaurant Assoc., 12/9/2013)