



national insurance contributions on tips

Inland Revenue back down over NICs on tips

In the past the Inland Revenue have aggressively attacked the validity of systems put in place by an individual other than the employer to distribute tips, gratuities and service charges amongst staff ("Tronc System"). This has resulted in employers being charged more National Insurance Contributions (NICs).

The Inland Revenue have now issued their revised guidance to add clarity to these rules but also demonstrate where they have backed down on two specific areas. There may therefore be opportunities for employers to reclaim overpaid NICs:

1. Where a discretionary service charge was paid by a customer using a credit card and this is to be distributed to staff under the Tronc System, previously the Inland Revenue would argue that NICs were due on the service charge. They now advise that NICs do not have to be charged on this.
2. In situations where tips from the Tronc System form part of an employee's National Minimum Wage, NICs will be due on this element of the Tronc payment only as there is a contractual obligation for the employee to receive this payment. It will not be due on any Tronc payment over and above this amount.

It is important that tips, gratuities and service charges are dealt with properly for tax and NIC purposes as it can be costly for the employer if they are caught out.

If you would like some advice on this subject, please contact Sally Bennetts at the Milestone Tax Office on 01722 820033 or email sbennetts@tax.mslta.co.uk



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