

Tip the Scales in Your Favor

What you don't know might be hurting your bottom line.

Have you ever heard of the FICA Tip Credit? Don't worry — you're not alone. This commonly overlooked tax credit was instituted by the IRS for restaurants that employ individuals who are paid the majority of their income in tips — and it could make a big difference to your bottom line.

What is the FICA Tip Credit?

The FICA Tip Credit was initiated in 1993, prompting business owners to spur tip reporting among their tipped employees. The credit is determined by the amount of Social Security and Medicare taxes paid on tips that fall above the federal minimum wage requirement.

As you know, a tip is a voluntary payment by a customer. Tips totaling more than \$20 per month, per employee are subject to federal income taxes — including FICA — and must be reported to the IRS. In an industry like restaurant, many employees who earn tips have a far higher income than their paychecks would indicate — and a low inclination to report those tips for income tax purposes.

Why is it important to my business?

The FICA Tip Credit is equal to the Social Security and Medicare taxes paid on tips reported by tipped employees and it reduces your tax liability so you can offset any regular income tax liability. In other words, the amount you would pay out for the year in income tax is reduced by the amount paid for Social Security and Medicare taxes on tips exceeding the federal minimum wage requirement. That could add up to huge savings!

How is the FICA Tip Credit determined?

Your business must meet two requirements to qualify for the credit:

1. Employ individuals who received tips from customers for providing, delivering or serving food or beverages for consumption.
2. Have paid or incurred employer Social Security and Medicare taxes on these tips.

Two forms are required to calculate and claim the credit: IRS Forms 8846 and 8027. IRS form 8846, Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips, helps you determine what the credit will be based on employee tip reporting information. You will complete form 8027, Employer's Annual Information Return of Tip Income and Allocated Tips, to report tips to the IRS.

The credit is a percentage of reported tips and wages that exceed the current minimum wage requirement (\$5.15/hour for tipped employees). It is calculated by determining an employee's total earned income (salary + tipped wages), subtracting the minimum wage (\$5.15) and multiplying the sum by 7.65%. For example, a tipped employee who earns a total of \$9.75/hour between salary and tipped wages would net you a credit of \$0.35/hour — or \$546 for the year.

If your employees average \$7/hour in tips — at a salary of \$2.75/hour — your FICA Tip Credit is \$0.35/hour, per employee. **With 10 employees you'd save more than \$5,000 per year!**

To learn more about this important tax credit,
contact Heartland Payment Systems at 866.941.1HPS (1477).