



Freedman Frankl & Taylor
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A guide to Tips & Gratuities



Introduction

With the hospitality industry always on the move, the Government has taken steps to ensure that tips, gratuities and service charges are handled more fairly.

The Employment (Allocation of Tips) Act 2023 was given the green light on 2 May 2023 and is set to come into play on 1 October 2024.

This is big news for the nearly two million workers across the UK who rely on tips as part of their income, and it's designed to make sure those hard-earned tips end up where they belong - in the hands of the people who earned them.

In this guide, we'll walk you through what the Tipping Act is, how it will impact your business, and what you need to do to stay compliant.



What the Tipping Act provides

The Tipping Act is designed to make things fairer. It's no secret that in the past, some businesses have used tips to cover costs like credit card fees or administrative expenses.

But those days are numbered. The Act makes it illegal for employers to pocket any portion of the tips meant for their staff. All tips, whether left in cash, paid by card, or given through contactless payments, must be handed over to employees without any deductions, other than for tax purposes.

Key points of the Tipping Act

All tips must go to employees

From October 2024, every penny left as a tip must go directly to the employees. This applies to cash tips, card tips and service charges. Employers won't be allowed to deduct card fees or other costs before passing the money on.

Keeping clear records

Businesses will need to keep detailed records of the tips they receive and how they're distributed. These records need to be kept for at least three years, and employees have the right to see how their tips are being handled.

Service charges vs. voluntary tips

The Act makes a clear distinction between voluntary tips and service charges that are added to bills automatically. Both must be distributed to employees, with the only deductions being made for tax purposes.

The Code of Practice

Alongside the Tipping Act, the Government has introduced a Code of Practice. The Code offers guidelines to help businesses manage the new rules and ensure that tips are distributed fairly and transparently.

Key principles of the Code of Practice



Fair and transparent distribution

The heart of the Code is ensuring that tips are distributed in a way that's clear, fair, and reasonable. Employers are expected to take various factors into account, such as the type of work, hours worked, and performance. While this doesn't mean every worker gets an equal share, the process must be transparent. Employees should understand how tips are distributed and feel confident that the system is fair.

Written policy

Employers are required to have a written tipping policy. This document should outline exactly how tips are handled, how they are distributed, and what factors are considered in that distribution. The policy needs to be accessible to all workers, including those who are hired through an agency, and it should be written in plain language. Whether it's shared electronically or as a physical document, every worker must have access to it.

Employee rights

Employees have the right to request information about the total tips received at their workplace and their share. However, they won't have access to the amounts allocated to their colleagues. This right can be exercised once every three months, ensuring that workers can stay informed without causing disruptions.

Timely distribution

The Code states that tips must be passed on to employees by the end of the month following when they were received. For example, if a tip is left in June, it must be distributed by the end of July. This ensures that workers aren't left waiting for their hard-earned money and that the process remains efficient and fair.

Distribution of tips

One of the big questions businesses will face under the new rules is how to distribute tips fairly. The Tipping Act and the Code of Practice provide some guidance but leave room for flexibility, recognising that fairness doesn't always mean an equal split.

Sometimes, a customer might leave a tip specifically for one person or a group that provided excellent service. It's important to honour these intentions when distributing tips.

A common approach is to divide tips based on the number of hours each employee worked during a given period. This ensures that those who work more hours receive a proportionate share.

More senior staff members or those with more responsibilities might receive a larger share of the tips. This can reflect their role in delivering the overall customer experience.

If someone has gone above and beyond, it might be fair to reward them with a larger share of the tips. This can serve as an incentive for all staff to maintain high standards.

Some businesses might choose to reward long-serving employees with a higher proportion of the tips, as a way to recognise their loyalty and experience.



Using the tronc system

To remain compliant with the Tipping Act, many businesses will need to set up a tronc system. A tronc is a pool where all tips are collected before being distributed among the staff. It's managed by a *troncmaster* – a person responsible for overseeing the distribution of tips. To ensure impartiality, the troncmaster must be independent of the business owner



Collecting Tips



Distributing Tips



Running Payroll



Keeping Records



Reporting to HMRC

Why use a tronc system?

One of the benefits of a tronc system is that it can offer National Insurance exemptions on tips. This means both the business and the employees could save money, which is always a good thing. Plus, having a tronc system in place helps ensure that tips are distributed fairly and transparently, reducing the risk of disputes and keeping everyone happy.

What should you do next?

With the Tipping Act set to come into force in October 2024, now's the time to start getting your policies and practices in order. Here are a few steps you should take:

Review your tipping practices

Take a close look at how your business currently handles tips. Are there any practices that won't align with the new rules? If so, you'll need to make changes to ensure compliance.

Create a written policy

Develop a clear, written policy that explains how tips will be distributed. This policy should be shared with all employees and should outline the factors you'll consider in the distribution process.

Set up a tronc system

If you don't already have one, consider setting up a tronc system. This will help you manage the distribution of tips fairly and could also offer some tax benefits.

Train your staff

Make sure your employees understand the new rules and how tips will be handled moving forward. Clear communication is key to avoiding misunderstandings and keeping everyone on the same page.

Keep good records

Start keeping detailed records of tips received and distributed. These records will help you in meeting your legal obligations under the Tipping Act.



What does the Tipping Act mean for the hospitality industry?

The Tipping Act represents a big change for the hospitality sector, which is designed to create a more level playing field for all businesses.

For employees, it means greater certainty that they'll receive the tips they've earned, which could help with staff retention in a sector that's been struggling with shortages.

For businesses, there are new responsibilities to manage. Failing to comply with the Tipping Act could lead to legal challenges, financial penalties and damage to your reputation. That's why it's so important to start preparing now.



Contact us

If you need to prepare your business for the incoming Employment (Allocation of Tips) Act, or if you have any questions about how these new regulations will affect you, our experts are here to help. Please contact:



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