



SMART STRATEGIES FOR RESTAURANT PAYROLL

Restaurant employers need to make sure their non-exempt employees earn at least the federal minimum wage, or the state minimum wage, whichever is higher. Compensation counted toward this may include hourly wages, meals furnished to the employee, and tips earned by the employee.

Tipped Overtime

When a tipped employee works overtime, they are subject to specific pay regulations. Employees earning under \$455 per week or \$23,660 annually as of December 1, 2016, qualify for overtime pay despite a halted rule to raise this threshold. Such employees should receive 1.5 times their regular rate for extra hours worked.

In determining overtime for tipped employees, it's critical that the "regular rate" includes their minimum hourly wage plus any tip credit. The overtime pay is calculated from this total, incorporating tips into the compensation. This ensures that tips are properly counted in overtime payment, providing fair compensation as mandated by federal labor laws.

Cash Tips vs. Charged Tips

When an employee earns cash tips, it is mandatory that they report 100 percent of the total amount to their employer, provided that the sum exceeds \$20 per month. If the total amount of cash tips received is less than \$20 per month, there is no need for reporting. However, charged tips, those given via credit or debit card, are managed slightly differently due to the implications of transaction fees.

Credit card tips are subject to processing costs levied by credit card companies. Consequently, the Department of Labor permits employers to compensate their staff with the amount of the charged tips reduced by the percentage that is due to the credit card processor. This ensures that the processing fees do not unduly burden the employees, while also making the handling of tips via card transactions transparent and fair for both employees and employers. This distinction in tip handling is essential for payroll accuracy and legal compliance in the restaurant and hospitality sectors.

Example:

Federal Minimum Wage: \$7.25 per hour

Cash Wage: \$2.13 per hour – Minimum under federal law

Tip Credit: \$5.12 per hour – Maximum under federal law

Multiply minimum wage by 1.5 and subtract the tip credit.

Amount Employer Pays Per Overtime Hour Worked = \$5.76

Example:

Tip Total (one week): \$250 in charged tips

Credit Card Company Fee: 3%

Multiply the tip total by the fee percentage and subtract that amount from the tip total.

Amount Employer Pays the Employee = \$242.50

Providing Meals

According to IRS Publication 15-B, if a restaurant owner furnishes an employee with a meal on the premises for the owner's convenience, the value of the meal can be excluded from the employee's wages.

Tips to Minimum

The Fair Labor Standards Act (FLSA) allows restaurant owners to include employee-earned tips toward meeting minimum wage requirements. If the tip amount exceeds the minimum wage, the employer may be eligible for a partial FICA tax credit.

8% of Total Receipts = Minimum total tip income that may be reported during any pay period.

Claiming the FICA Tip Credit

Restaurant employers and their employees are required to pay taxes on tipped income, as mandated by the Federal Insurance Contributions Act (FICA). This requirement means both the employer and the employee contribute to FICA based on the total amount of declared tips. However, restaurant owners can claim a tip credit, which can offset some of the costs associated with their employer portion of FICA taxes. This can be done through Form 8846, which is filed with their business tax returns. Utilizing this tip credit is crucial for restaurant owners as it directly impacts their overall financial health and compliance with tax regulations.

Example:

Weekly Wages: Hours worked x hourly rate + cash tips $30 \times \$2.13 + 250 = \313.90

Wages Paid Hours worked x federal wage rate (at minimum wage): $30 \times \$5.15 = \154.50

Tax Credit: Weekly wages – wages paid x FICA $\$313.90 - \$154.50 \times 7.65\% = \$12.19$

Annual Savings: Tax credit x number of pay periods (weekly) $\$12.19 \times 52 = \633.80