

Tip Allocation & Tip Reporting

A Manager's Guide

Prepared by:

Robert Gn. Glotfelty
Sr. Program Analyst

**US Army Community & Family Support Center
Business Programs Directorate
(CFSC-BP)
4700 King Street
Alexandria, Virginia
22302-4404**

This Guide as well as the listed forms and worksheets are available via the web at www.armymwr.com. Click on "Tip Allocation" then on "Tip Reporting". It is formatted as an Adobe Acrobat PDF file for ease of downloading and printing.



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INTRODUCTION & BACKGROUND

The Tax Equity and Fiscal Responsibility Act of 1982, Public Law 97-248, contains a provision requiring tip allocation and tip reporting by "large" food and beverage establishments. These facilities are required to keep records on gross food and beverage sales, charged sales, charged tips, tips reported by employees, and certain other information. Additionally, if employees do not report tips that equal at least 8 percent of gross food and beverage sales, the employer is required to "allocate" an amount to each employee that makes up for the difference.

The total amount of allocations throughout the year is reported to the Internal Revenue Service (IRS) on the employees W-2 each year. The employee is then required to pay FICA as well as Federal, State, and any other taxes due on that amount. In some cases the employer may even be liable for back FICA taxes.

Tip Allocation and Tip Reporting requirements apply to MWR food or beverage operations within the United States (50 States plus the District of Columbia). It does not apply at installations outside the U.S. Note: even if an MWR operation is excluded for the Tip Allocation and Tip Reporting requirements for this or other reasons, employees must still report ALL their tip income and the employer is required to remind employees of this requirement on a regular basis. Underreporting of tips by employees, or failure of management to properly report all tips, can trigger an IRS audit.

The original guidance was published in a *Manager's Guide to Tip Allocation* in 1983. That guide was incorporated in AR 215-1 in 1985 and is currently located in Appendix C to AR 215-1. This updated *Guide* should be considered a replacement for all earlier guidance. Note that there have been NO significant changes to the basic law or requirement to report information. This updated *Guide* merely makes it easier for installations to comply with the law.

The IRS advised the Army in June, 2000 that compliance with the filing of IRS Form 8027, an annual requirement, has been dismal and that specific action was needed. This *Guide* also contains specific instructions to ensure that all installations will file required documents for Calendar Year (CY) 1999 and 2000. The Army has made a commitment to the IRS that CY 2001 Tip Allocation and Tip Reporting requirements will be completed accurately and filed on time.

A thorough reading and understanding of this *Guide to Tip Allocation and Tip Reporting Requirements* is essential to keeping accurate records and IRS reporting. More detailed information can be obtained from IRS Publications referenced throughout this *Guide*.

Though the law is complex, this *Guide* has been prepared to assist MWR managers in understanding the requirements and actions needed to ensure compliance with the law by both employees and employers. It provides specific information on types of food or beverage operations that may be excluded, a standardized method of recording and maintaining the required information, and details on completing the various IRS forms.

Please remember that this procedure applies to tips. Whether called a tip, gratuity, or any other name, a tip is either money or an item of value VOLUNTARILY given to an employee of your operation. Voluntary means that the amount, including leaving nothing, is at the sole discretion of the customer. If you automatically add a percentage or fixed amount to a customer's bill, it is NOT a tip for this purpose, but a service charge.

Full compliance with the tax laws of the United States is a duty of all citizens and residents of the United States. This is especially important for those of us employed by the United States.

BASIC REQUIREMENTS

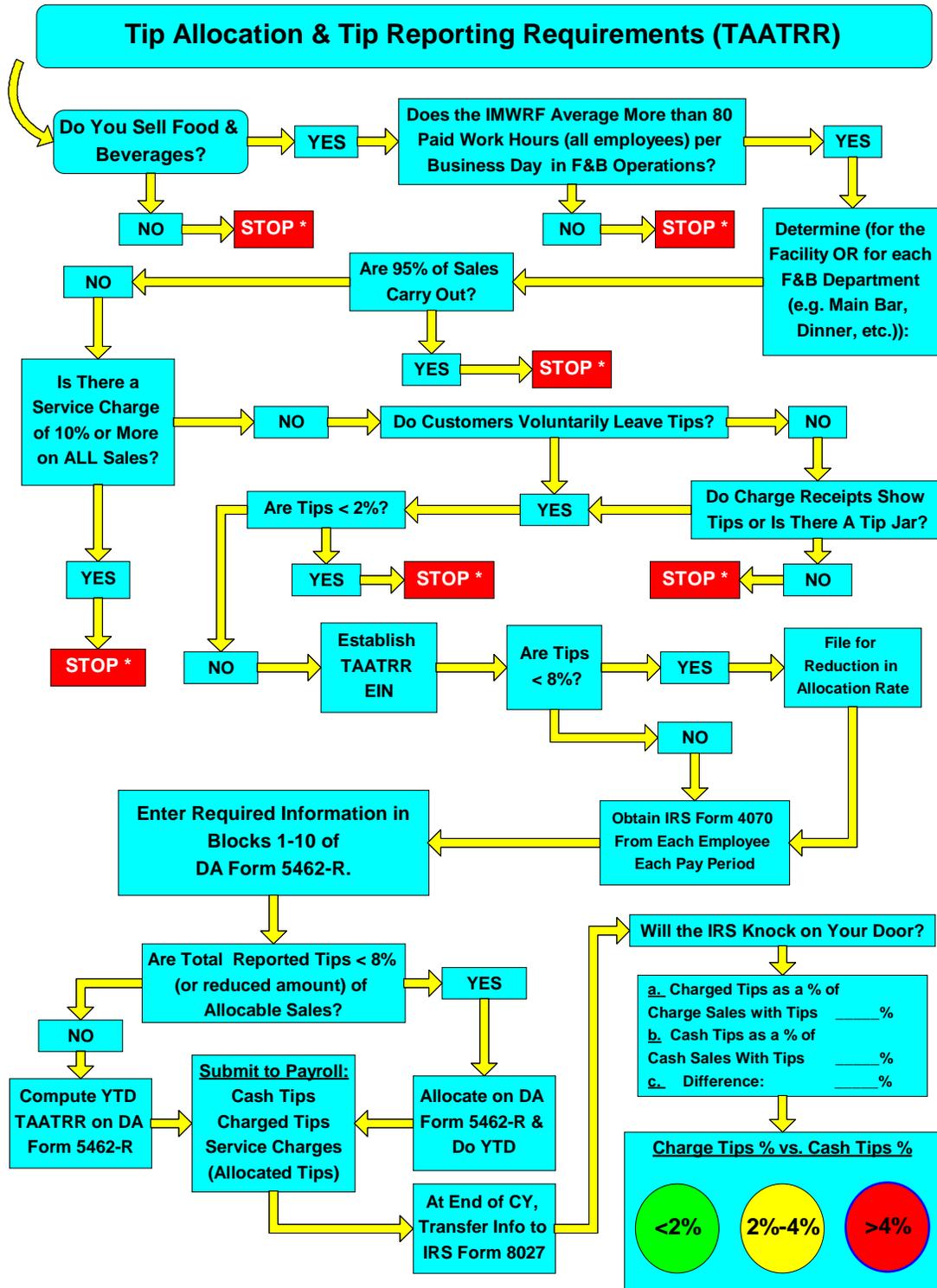
Implementation of Tip Allocation and Tip Reporting procedures requires a simple analysis that can only be made at an activity or facility. Most of the questions and answers are a straightforward Yes or No. Some of the questions however, will require analysis of the options available, and local procedural changes may be implemented to lower the work effort necessary to comply with the requirements. Though not all-inclusive, some of the questions you need to know the answers:

YES **NO**

- Do you sell food or beverages?
- Do you average 10 or more FTE employees per day?
- Is there a 10% or more service charge?
- Do customers leave tips?
- Are reported tips 8% or more of gross sales?
- Do you track sales for each employee?
- Is there a tip jar?
- Do you get IRS Form 4070's from each employee?
- Do you use DA Form 5163-R to report tips to payroll?
- Are tips less than 2% of sales?
- Do you use DA Form 5462-R to record sales & tips?
- Are charge & cash tips about the same percentage?
- Did you file IRS Form 8027 by 29 Feb each year?
- Are reported cash and charge tips about the same percentage?

On the next page is a detailed flow chart that will assist you in determining which, if any, of your F&B activities within your facility are covered.

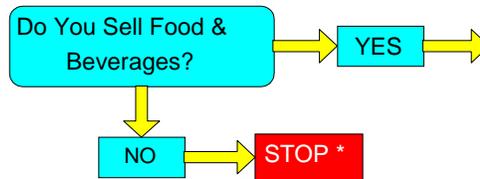
Flow Chart for Tip Allocation and Tip Reporting



*NOTE: Even if you are excluded from the allocation process, employees are still required to report all tip income.

FLOW CHART ANALYSIS

Food or Beverage Sales?



The first “test” to determine if you must report and/or allocate tips is that you must sell food, beverages, or both. If your answer is NO, you are excluded from this process. Note that even if you are excluded, all tips are to be reported to the payroll office. This applies at each and every STOP point throughout this Flow Chart.

If you answered YES, continue.

Small or Large?

Tip Allocation and Tip Reporting requirements only apply to LARGE food or beverage establishments. This section will let you determine if you are large, in accordance with the IRS definition.



The rule in this section is simple: “Do you have more than 80 paid work hours within food or beverage operations at the IMWRF on a typical business day?”

Most military installations will be considered large, as the count of hours is at the IMWRF level, not at each facility or department. This “common ownership” rule also applies in the private sector where one owner has several outlets. The "owner" for our purpose is the IMWRF.

Note that the employer must include ALL employee hours involved with the F&B operation. Do NOT count hours involved in other activities. If an IMWRF bowling center is the only F&B on base, and has 5 full time employees each day directly in F&B, a bowling center manager who spends 2 hour per day on F&B related activities (indirect), and 12 other employees (full or part time) who have no F&B functions, the IMWRF would be excluded, as there are not more than 80 paid work hours per day in F&B.

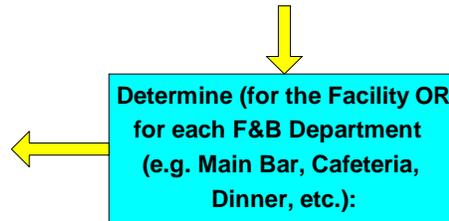
The rule of thumb is that you ARE covered unless you can prove you are not. If you think you are BELOW the 80-hour rule, the IRS provides the following formula to answer the question.

CALCULATIONS TO DETERMINE FTE'S

Month of Greatest IMWRF F&B Gross Receipts:	
Total F&B Work Hours During Month:	a.
Number of Calendar Days Open:	b.
(Divide "a" by "b")	c.
Month of Least IMWRF F&B Gross Receipts:	
Total F&B Work Hours During Month:	d.
Number of Calendar Days Open:	e.
(Divide "d" by "e")	f.
Add "c" and "f":	g.
Divide "g" by "2"	h.

If "h" is 80 or Less, STOP. If "h" is MORE than 80, continue to next section.

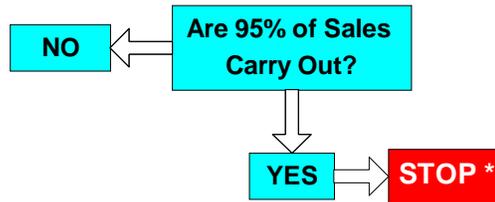
By Facility or Department?



You now have to determine whether you will apply the process to each facility or to the departments within the facility. It may be easier to complete one set of paperwork for the entire facility, but this could cause a major problem for some of your tipped staff.

An example would be a facility that offers a full breakfast and a full dinner service where you have determined that the actual tipping rate at breakfast is below 8%, and above 8% at dinner. If these two departments are lumped together and you are later required to allocate tips, employees working the breakfast operation would receive allocated tips on their W-2's merely because their real tip rate is lower than the other. Employees who accurately record their daily tips can "prove" to the IRS that they did not receive these allocated tips. But, it would seem an unfair predicament to place your employees in, when the alternative is to simply consider breakfast and dinner two different operations. The rule of thumb is if you have a department(s) where tipping is KNOWN to be less than 8%, break it out. If the actual tip rate is 8% or more in all departments, do a single report for the entire facility. You can also put all departments with less than 8% together, and lump those with more than 8% into another group. Whichever you choose, you must complete the rest of the analysis for EACH department or each facility you have.

Do Carry-Out Sales Count?

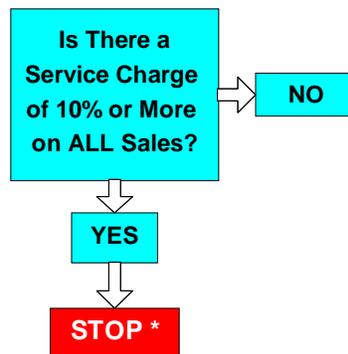


The IRS assumes that carryout sales do not incur tips in the same fashion as table service. Therefore, if 95% of your F&B business is carryout, you are automatically excluded.

Delivery service is considered carryout for this purpose and can be added to regular carry out to determine if you meet the 95% threshold. Catered events are NOT carryout for this purpose, though catered events may be excludable under the next section.

For the facility (or department), divide total carryout and delivery sales, by total F&B sales. If it equals 95% or more, STOP. If less than 95%, continue to the next section.

Do You Have a Mandatory Service Charge?



A service charge is NOT a tip even if it's listed as a tip or gratuity on bills or (party) contracts. Rather, it is any amount (percentage or fixed dollar) automatically added to a customer's bill. Service charges are income to the department or activity, and some or all of it may be paid out to employees. All payments to employees from service charge income must go thru the payroll system.

Most catered events or party contracts have mandatory service charges expressed as a percentage of the total cost. Some dining establishments have converted to a mandatory service charge, while others have a mandatory service charge for parties of 8 or more guests.

In any case, it must be remembered that these are NOT tips, and distribution of some or all of it, and to whom it goes, is at the sole discretion of management (and any employee agreements). It should also be noted that employers are subject to paying FICA taxes on any service charges actually distributed to employees as it is considered regular income to employees.

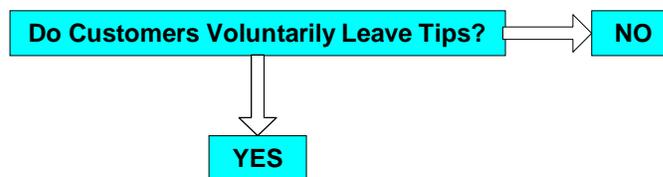
Therefore, if you distribute the entire service charge, the employer share of the FICA percentage must be paid out of the earnings from the function. There is nothing wrong in doing this, so long as it is known and the earnings calculations consider this cost.

Example: Large party function with a 15% mandatory service charge. Service charge totals \$350.00. Management policy is to distribute all of it to those working the function. \$350 is reported to payroll as income to the affected employees and the facility “pays” \$25.55 (7.13%) as the employers’ share of FICA. Had the activity paid out 92% of the service charge income (\$322.00) to employees instead, and retained the rest, the employer’s share of FICA would have been covered by the service charge income.

Service charges can greatly simplify tip allocation and reporting for an F&B operation. The test question is below.

If you have a mandatory service charge of 10% or more on ALL F&B sales, you may STOP as you are excluded from the process. If you do not have it on ALL sales, you must continue to the next section. Note: if you have service charges in some areas and not others, sales with a service charge won’t be part of the allocation process.

Is Tipping Customary?



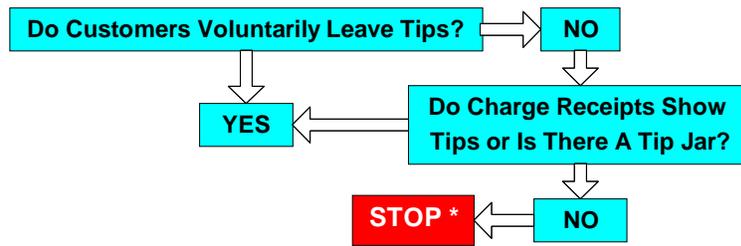
Whether tipping is customary depends on the nature of the establishment. Anecdotal information is NOT useable and effective means must be taken to determine whether tipping does or does not occur at each department or facility and the actual rate of tipping. It should be noted that cafeterias, buffet lines, and similar operations are NOT automatically excluded. The IRS has noted that tipping does in fact occur at most of these operations (table service for beverages, refills, or tray delivery). Generally, the only automatically excluded operations are fast food operations without table service. Your answer to this section and the next two will determine if tipping is customary for your F&B operation.

There are several facets involved in determining if tipping is customary in your facility. A manager cannot just use anecdotal information from employees, particularly as to the rate of tips received. If your employees do not currently report tips, particularly cash tips, you have no immediate basis to determine the dollar amount of actual tips received. A quick litmus test: do charge receipts show tips?

Note: It is not uncommon for auditors or investigators to leave large tips, watch other tables for tips actually left and then, upon reviewing reported tips, "discover" that reported tips were less than the tips they actually observed being left. If you answer YES in this section, you can skip the next two sections. If you answered NO, continue to the next section.

Are There REALLY No Tips?

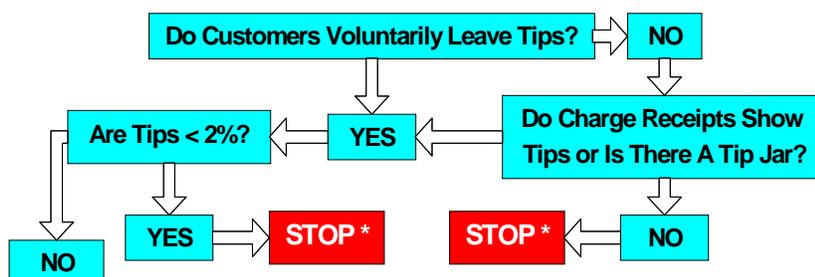
This section adds another question to assist in confirming if tipping is customary. Its purpose is to allow a re-check of the activity.



If you find that charge receipts show tips it is also likely that employees are also receiving cash tips that are not being reported (or else the answer to the last section would have been YES). Another indication of tips is simply whether there are tip jars on the counter. It's surprising (before audits) the numbers of facilities where tipping is not customary but the place has a very active tip jar or charged tips. A final test is an announcement of placing 'NO TIPPING' signs and gauging the reaction. Sufficient protests at the same time zero tips or very low tips are reported, may be contradictory and indicate that tip reporting should be increased.

If in fact you are sure that tipping isn't customary, and that there are no other indicators of tips (charge receipts, tip jar, etc.), STOP. Otherwise, go to next section.

Do I Have to Do All This Work if Tips are REALLY low?



The 3rd question of this group to determine if tipping is customary (for the purpose of the IRS definition) is when tipping is really low. IRS procedures require certain actions at specified thresholds:

- 8% threshold to avoid the allocation process.
- If actual tips are less than 8% but 2% or more, activities can request a lowering of the allocation rate (discussed later).
- Actual tip rates are less than 2% of sales.

Though not specifically spelled out in the IRS documents, there is no reporting or allocation required or changes to allocation rates necessary, if the real, actual tip rate is below 2% of sales. Therefore, if your actual tip rate is below 2%, you can STOP, as the IRS will consider that tipping is not customary.

If you are excluded for this reason, review your operation at least quarterly to see if there have been any changes. If you don't, and the tip rate increases, you could be subjected to fines and penalties for not filing required IRS returns. Remember: ensure that tips received, in any amount or percentage of sales, are fully reported.

If your actual tip rate is at least 2%, go to the next section. If not, STOP.

Establishment Identification Number for Tips.

Having made it thru the exclusion portion, and having determined that this one department or facility is not excluded (remember, you must go through this analysis for each F&B department or facility you have) you will be required to file an IRS Form 8027 each year.



The form requires that you establish a unique number (Establishment Identification Number) for each reporting facility or department. It consists of three parts.

A. Employer Identification Number (IRS assigned number)

For the Army, the EIN will be the same as the one used by NAF Payroll for NAF employees. This will be used even if the installation has a EIN assigned for other purposes. It is: **751744396**

B. A single digit code describing the type of service offered. You have four choices:

Code	Description
1	An establishment that serves evening meals only (with or without alcoholic beverages).
2	An establishment that serves evening and other meals (with or without alcoholic beverages).
3	An establishment that serves only meals other than evening meals (with or without alcoholic beverages).
4	An establishment that serves food, if at all, only as an incidental part of the business of serving alcoholic beverages.

Managers must select only one of the above for each reporting department or facility. Select the one that best describes your operation, even if it is not exact.

C. A unique 5-digit numeric code for each department or facility.

Each IMWRF will have a 5-digit number assigned to each facility or department that needs to report. If you have facilities and one reported two departments the numbers would generally be assigned in sequence, such as:

OFF Club	00001
NCO Club-Bar	00002
NCO Club-Food Service	00003
Rod & Gun Club	00004

The Establishment Identification Numbers for this IMWRF, to be listed on the IRS Form 8027 and any other documents provided to the IRS would be as follows:

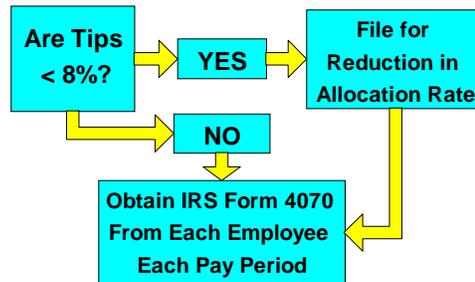
OFF Club	751744396	2	00001
NCO Club-Bar	751744396	4	00002
NCO Club-Food Service	751744396	2	00003
Rod & Gun Club	751744396	3	00004

In order to compile the initial list of activities that will be filing the annual IRS Form 8027, CFSC has provide a range of numbers for each installation to select their 5-digit numeric code. The list is on Page 44. This method is required as the 9-digit Employer Identification Number (EIN) is generally the same for all IMWRF's, and if the 5-digit number is not initially centrally assigned, the same number could be assigned to more than one facility among the IMWRF's. If there are any questions on this part, contact CFSC-FM.

Should a department or facility close, you will use this number to file a "final" return. If and when a replacement facility or department opens, you can select the next available number in your installations assigned sequence. The old code should NOT be re-used in cases of closings (except temporary closings for renovations, etc.).

Beginning the (Actual) Tip Allocation & Reporting Process.

Note in the diagram below that either a YES or NO answer gets you to a box that requires obtaining IRS Form 4070 from each employee – though a YES gives you the chance to lower the “allocation” threshold below 8 percent. Each of these areas are explained in a, b, and c below.



a. Are Tips Less Than 8%? This is the bottom line for tip allocation. If employees are reporting at this point in the process, tips of less than 8% of sales, then either they are under-reporting tips and you have to allocate to them, or the actual tip rate is below 8% and you should seek a reduction in the allocation rate.

b. Lowering the allocation rate below 8% (but not below 2%) requires IRS approval. Applications are sent to the appropriate District IRS Director with information sufficient to allow the district director to estimate with reasonable accuracy the actual tip rate of the establishment. Your petition for a lower rate must clearly demonstrate that a rate of less than 8% should apply. The burden of supplying sufficient information rests with the employer.

The information required by the district director includes:

1. Employer's name, address, and employer identification number.
2. Establishment's name, address, and establishment number (the full 15-digit tip allocation number).
3. Detailed description of the establishment that would help to determine the tip rate. The description should include the type of restaurant, days and hours of operation, type of service including any self-service, the person (waiter or waitress, cashier, etc.) to whom the customer pays the check, whether the check is paid before or after the meal, and whether alcohol is available.
4. Past year's information shown on lines 1 through 6 of Form 8027 as well as total carryout sales; total charge sales, percentage of sales for breakfast, lunch, and dinner; average dollar amount of a guest check; service charge, if any, added to the check; and the percentage of sales with a service charge.

5. Type of clientele.

6. Copy of a representative menu for each meal.

7. The petition must contain the following statement and be signed by a responsible person who is authorized to make and sign a return statement, or other document: "Under penalties of perjury, I declare that I have examined this application, including accompanying documents, and to the best of my knowledge and belief, the facts presented in support of this petition are true, correct, and complete."

8. You must attach to the petition copies of Form 8027 (if any) filed for the last 3 years prior to your petition and include a check or money order made payable to the U.S. Treasury for the amount of the user fee required for determination letters. The current user fee amount can be obtained from your district IRS office.

c. Obtain IRS Form 4070 from each tipped employee each pay period.

This is an IRS provided form and is contained in IRS Publication 1244, copies of which are attainable from your district IRS office or by calling 1-800-TAX-FORM (1-800-829-3676). One copy of Pub. 1244 should be given to each tipped employee. Each booklet contains enough forms for 14 payroll periods of reporting. Managers may develop a local form if they desire, but it must contain the same basic information.

You should be using DA Form 5163-R (Nonappropriated Fund Central Payroll System Tips, Service Charges, and Meals Report) to record cash tips, charge tips, service charges, etc. You would enter the information from the IRS Form 4070 directly onto DA Form 5163-R (by employee), and this will give you the information you need to do the tip portion (Block 15 of DA Form 5162-R), for each employee. If you will also annotate DA Form 5163-R with the sales for each employee as you go along, you can then transfer the sales data to Block 14 of DA Form 5162-R).

If you need to allocate, the allocation amounts for each employee from DA Form 5162-R will then be transferred to Column 9 of DA Form 5163-R.

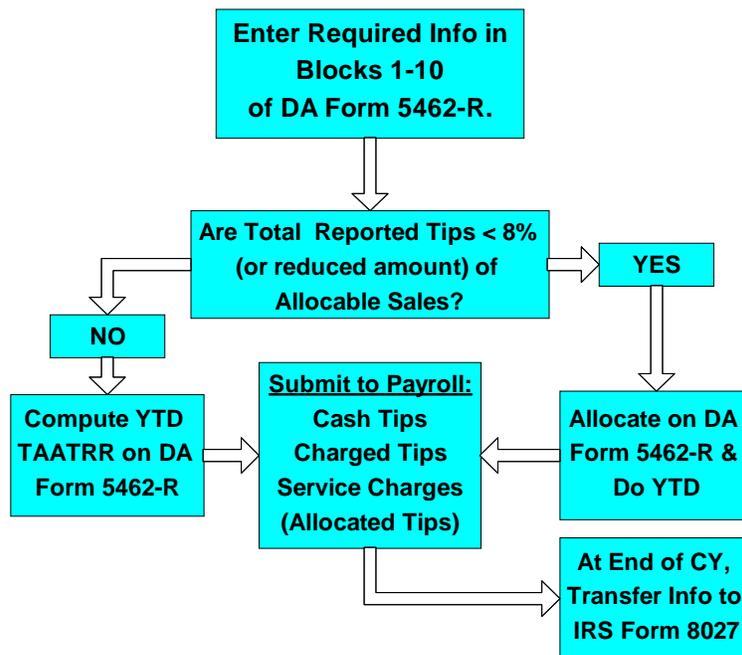
DA Form 5462-R and Reporting to Payroll

Next, you will begin filing in DA Form 5462-R. This form was developed specifically to assist installations in tracking each of the required data elements needed. Besides being a single place to record all needed information, this is the only means of accumulating the data required to file IRS Form 8027 at the end of each calendar year. Specific information and directions for each block in DA Form 5462-R are on Page 22 of this *Guide*. This section of the *Guide* will simply give you an overview of the basic requirements. Please note that DA Form 5462-R must be completed EVERY pay period.

Completing Blocks 1 through 10 of DA Form 5462-R, is all you need to do to determine whether total reported tips are less than 8% of gross sales. This is important, if reported

tips are less than 8% (or a lower amount as approved by an IRS district director), you are required to allocate tips to your employees. This is a lengthy process, and requires you to maintain and post sales and other information for each tipped employee. If you must allocate, you will need to fill in Blocks 11 through 22 (Part B) for each directly tipped employee (tip information will come from DA Form 5163-R), as well as complete all other Blocks on the form (Part's C & D).

If total reported tips are greater than 8% (or lower amount as approved by an IRS district director), you are NOT required to allocate for this pay period (meaning you can skip doing Blocks 11 through 21 of Part B) for this pay period. However, you must still complete Block 22 (of Part B) as well as all of Part C & D.



Whether your answer was YES or NO, and whether or not you had to allocate in Part B, you are still required to report all tip information (cash, charge, allocations, etc.) to NAF Payroll as you have always done. This is done on DA Form 5163-R. There has been no change in this requirement.

At the end of the last full pay period of the calendar year, if you have completed a DA Form 5462-R for each pay period and posted the YTD information each time, you can simply transfer the data in Part D from the last DA Form 5462-R of the payroll year directly to the IRS Form 8027!!!

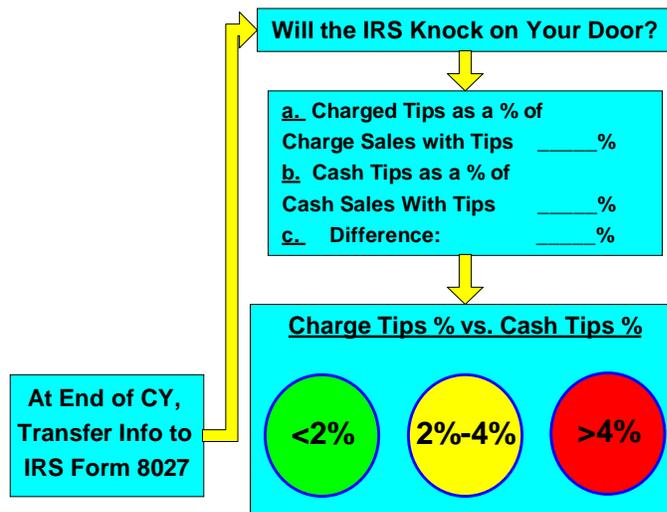
You then enter the required name and address information, date, sign, and mail to the office designated on the Form. Forms MUST be mailed by 28 February. If you are filing more than one IRS Form 8027, you must also complete transmittal form (IRS Form 8027-T), which basically just indicates the number of 8027's you are sending.

Is Someone Going to Jail?

Part D of DA Form 5462-R is designed to assist you in avoiding a visit from an IRS auditor. It takes the information you will report on your IRS Form 8027, and analyzes it in about the same fashion that the IRS does.

Though not specifically part of tip allocation or tip reporting, the fact is, the IRS derives this information from the data you submit on your IRS Form 8027's.

With this information, the IRS is able to compute your charge tips as a percentage of charge sales and cash tips as a percentage of cash sales. As you know, the allocation formula kicks in when reported tips are less than 8% of sales. Hypothetically, an employee could report 16% of sales in charge tips and 0% on cash tips. If charge and cash sales were equal, the allocation process would show that this employee reported on average, 8% of total sales in tips, and would receive no allocation.



That is why the IRS compares your reported Charged Tip Percent against your reported Cash Tip Percent. They simply subtract the two numbers and note the difference. The IRS accepts that people who charge generally leave higher tips than those who pay cash. If the difference is less than 2%, the IRS should just file your paperwork. However, if the difference is between 2% and 4%, this may indicate that all cash tips are NOT being reported. If the difference is greater than 4%, it is highly likely that all cash tips are not being reported, and a visit from the IRS may be in your future.

Once an IRS compliance audit is completed, the employer and the employee may be liable for all sorts of back taxes, penalties, and interest. Therefore it is critical that activities track Part D of DA Form 5462-R each payroll period. As Part D calculates on a YTD basis you will be able to look for trends.

Though there is no guarantee that you will not be visited if your difference is less than 2%, but the greater the difference, the greater the chance for a review. One private establishment reported a charge tip rate of 16.4% on charge receipts, and a rate of 1.4% on cash receipts. The IRS calculated that unreported tips by employees totaled \$423,298 and assessed the employer \$31,790 in back FICA taxes.

An IMWRF's best protection is that if the difference is greater than 2%, document your efforts to advise employees of the 100% of tips are reportable rule and that they may be subject back taxes, interest, and penalties. Documentation is not always enough as in the above case; the court held that the employer is responsible for the employer share of FICA even if employees under report their tips on IRS Form 4070's.

Some employers in the private sector are including requirements in the job description spelling out that reporting of all tips is a condition of continued employment and failure to do so can be grounds for immediate discharge.

SOME Q&A's:

What's In It for Employees Who Report All Tip Income?

There are many good reasons why employees should report all tip income besides the fact that it is required by law.

The increased income level may improve financing approval when applying for mortgage, car, and other loans. It will increase worker's compensation benefits, should they get hurt on the job as well as increase unemployment compensation benefits.

Social security benefits (the more you pay in the greater amount you will receive) are increased, as well as NAF benefits such as increased retirement pay, the ability to contribute greater amounts to the 401(k) program, and even increased levels of life insurance.

What's In It for Employees Who Don't Report All Tip Income?

Back taxes (income, social security, medicare and maybe state income taxes), penalties and interest. Penalties can run up to 50% of the amount of the tax owed, interest runs from the date it should have been paid, and maybe a 20% negligence penalty. An employee MUST report tip income to the employer – it just can't be added in on the employee's federal income tax return.

Can an Employee Who Receives Lots of Tips Owe the "Employer" Money at the End of A Pay Period?

Yes. An employee's regular pay may not be enough to withhold all the taxes the employee owes to the IRS on his regular pay plus reported cash tips. This doesn't usually happen when charged tips are sent through payroll, nor at all for service charge distributions to employees (as service charges are considered regular pay). Since employees take cash tips home upon receiving them (and may be charged tips if paid out at the end of the night), the employee's regular pay may not be enough to cover all the taxes owed.

If this happens to one of your employees, you should advise them that they should have all tip income sent through payroll (rather than taking it home) or pay over the needed amount for forwarding to payroll (who will turn pass the entire amount to the various taxing authorities).

Employees should ensure that they are "even" with their taxes on a regular basis. Money deposited by employees are applied in the following order to taxes owed:

- 1) Taxes (all types) owed on your regular pay.
- 2) Social Security and Medicare taxes or railroad retirement tax on your reported tips.
- 3) Federal, state, and local income taxes on your reported tips.

Note: The employer is required to automatically collect any taxes owed from future paychecks until the amount owed is fully recovered. If any withholding taxes remain uncollected at the end of the calendar year, the employee may be subject to an IRS penalty and interest for underpayment of estimated taxes. Information for employees on this matter is in IRS Publication 505, Tax Withholding and Estimated Tax.

Are There Penalties if I Don't File an IRS Form 8027?

The law provides for a penalty if you do not file Form 8027 (and Form 8027-T) on time unless you can show reasonable cause for the delay. Employers filing late (after the due date including extensions) should attach an explanation to the return to show reasonable cause. You may be charged penalties for **each failure** to:

- Timely file an information return including failure to file on magnetic media if required.
- Furnish the employee's TIN (taxpayer identification number, usually the social security number) on **Form W-2** Wage and Tax Statement
- Timely file Form W-2 and give a Form W-2 to the employee.
- Include your TIN (usually the employer identification number) on any return, statement, or document.
- Include correct information on a return or statement. This penalty applies to the omission of information as well as the inclusion of incorrect information.

Hours-Worked Method vs. Gross Receipts Method. What's the Difference?

Establishments that employ fewer than the equivalent of 25 full-time employees (both tipped and non-tipped employees) during a payroll period may use the hours-worked method to allocate tips

The basics of the hours-worked method is that instead of allocating tips based on individual employee actual sales, it is based on how long they worked compared to other similar workers. For example, if there was 300 hours worked in that tipped activity by tipped employees, and Person 1 worked 30 of those hours, Person 1 could be assigned 10% of any allocations.

This method has numerous drawbacks and is NOT recommended for Army MWR activities. Should you activity want to pursue this method anyway, please contact CFSC for specific guidance.

Good Faith Agreements – Should I?

The IRS also allows an allocation method called "Good Faith Agreements". This method basically allows employees to vote as to how to allocate tips. This method is also generally not appropriate for MWR activities.

What if I Make a Mistake and Allocate the Wrong Amount to an Employee?

You have no liability to an employee if amounts allocated to the employee under these rules don't reflect your employee's actual tips. If an employee's total tip allocation reported on Form W-2, Wage and Tax Statement, varies from the correct allocation by more than 5 percent, however, you *must* adjust the employee's allocation and review all tip allocations made to other employees in the same establishment to assure that their tip allocations are within 5 percent of the correct amount.

How Do I Record Tips for an Employee Who Works in Different Departments?

To avoid this, you should require employees to reported tips for and by each location worked – even if separate IRS Form 4070's are submitted. However, if the employee does not report tips received in each establishment separately, you are permitted to make a good faith estimate as to the tips received by the employee for each establishment. The total estimated tips must equal the total tips reported by the employee.

What's the IRS Definition of a Tipped Employee?

A food or beverage employee (bartenders, waiters, waitresses, busboys, persons in charge of seating, Maitre d', hostess, wine stewards, cooks, kitchen help, bar service, bar backs, etc.) who customarily receives tip income. Generally, an employee who receives less than \$20 per month in tip income is not considered a tipped employee. NOTE: The \$20 amount is for IRS reporting purposes only and it does not change the FLSA's \$30 amount used for determining entitlements and earnings.

Completing DA Form 5462-R

Note: A Sample and Blank copy of DA Form 5462-R are on Page 42 & 43 of this manual. A downloadable copy in Excel is available on the web.

BLOCK 1 - Pay Period

1. Period Ending 16-Jan-01

Enter the ending pay period date for your reporting activity. The first pay period of the year is the same as the first payroll period of the calendar year. The last pay period of the year is the same as the last payroll period of the calendar year. If you are unsure of the actual dates, please contact the payroll office. Once the first one of the year is recorded, each following one will be exactly two weeks later. Most years will have 26 pay periods, but some years may have one more or less. You will need to complete a DA Form 5462-R for each pay period.

BLOCK 2 - IMWRF Address and POC

2. <u>Installation Name, Work Center Code, POC & Address</u> Camp Swampy IMWRF (XX1YY00 or ZZ1YY), FMD John Smith 123 Military Ave., Bldg. 3, Camp Swampy, MO 23121

For Block 2, use your full mailing address information, including the name of the responsible IMWRF official (generally the Fund Manager). If you have decided to complete a DA Form 5462-R at the Location level, use only the first 5 digits of your Work Center Code. If you complete a DA Form 5462-R at the Department level, use the full 7 digit Work Center Code. You will find the full 7-digit code on all IMWRF payroll documents. If you have any questions about your Work Center Code, contact your central accounting office.

BLOCK 3 & 4 - Location and/or Department

3. Location Officers' Club	4. Department Main Bar
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If you complete a DA Form 5462-R at the Location level, only fill in Block 3. The name should be the same one as listed against the first 5 digits of your Work Center Code. If you will complete a DA Form 5462-R at the Department level, fill in both Blocks 3 and 4.

BLOCK 5 - Establishment Identification Number

<u>5. Employee ID No.</u>	<u>Estab. Type</u>	<u>Estab. Number</u>
751744396	4	00001

Your Establishment Identification Number for Block 5 has three parts as shown above. It is important that each number be correct, as these numbers are used in tracking each establishment for filing purposes, from year to year

A. Your Employer Identification Number should be that listed above. It is generally consistent throughout the Army for all IMWRF NAFI's under the Army central accounting program. If you believe it should be different, contact CFSC-FM for guidance.

B. Establishment Type. The IRS requires selection of one of the below numbers that most closely describes your operation:

1. An establishment that serves evening meals only (with or without alcoholic beverages).
2. An establishment that serves evening and other meals (with or without alcoholic beverages).
3. An establishment that serves only meals other than evening meals (with or without alcoholic beverages).
4. An establishment that serves food, if at all, only as an incidental part of the business of serving alcoholic beverages.

C. The last 5 digits will be assigned by CFSC as a range of 100 numbers to each installation (see Page 44), as each filing activity/department is required to have a unique number. Please assign in consecutive order. If you have non-MWR NAFI's on the installation, such as a Post Restaurant Fund, Billeting Fund, etc., they should also use numbers within your assigned range. If you open or close a facility, please contact CFSC-FM to determine if a new number is needed.

PART A - Do I Need to Allocate This Pay Period?

Blocks 6 thru 10 allow you to determine if you need to allocate this pay period. Remember that if you don't have to allocate this pay period, you still need to complete the year to date portions of DA Form 5462-R.

BLOCK 6 - Gross Receipts

Gross Receipts (F&B Sales Less Carryout Sales & Less Sales with a 10% or More Service Charge)			
6a	6b	6c	6d

Block 6 a thru c (6d is the total of 6 a, b, & c) is where you record your Gross Receipts by the categories required by the IRS (cash, charge sales with charged tips, and charge

sales without charged tips). Please note that only certain gross receipts are counted for this purpose and you will most likely have to adjust the sales numbers from your regular reports to account for the differences. The Form states that it includes all Food and Beverage Sales but you are to exclude carryout sales and sales with a 10% or more service charge. Adjustments include:

Tips & Service Charges	Carryout Sales	Discounts, Refunds, or Credits
Fast Food (non-tipped)	Sales with 10% or More Service Charge	Non-Food and Beverage Sales

After appropriate adjustments, enter your total Cash Sales, Charge Sales With Charged Tips, and Charged Sales With Out Charged Tips. These amounts will be entered in the appropriate Blocks (6 a, b, or c):

6a	6b	6c	6d
Cash Sales	Charge Sales With Charged Tips	Charge Sales w/o Charged Tips	Total Allocable Receipts/Total Gross Receipts (6a + 6b + 6c)
\$20,000.00	\$75,000.00	\$5,000.00	\$100,000.00

Do NOT make a manual entry into Block 6d, as it will automatically total the previous blocks. Block 6d becomes the Total Allocable Receipts or Total Gross Receipts for Tip Allocation and Reporting purposes.

Note: The reason for separating charge sales into those with tips and those without tips is that a number of customers leave cash tips with charge sales (rather than assuming there are no tips on charge sales without charged tips). The IRS uses Charged Sales with Charged Tips as a means of calculating the charged tip rate as previously explained and as is explained more under Part D of DA Form 5462-R.

BLOCK 7 - 8% of Gross Sales

Do NOT make a manual entry into Block 7, as it will automatically calculate based on the amount in Block 6d.

7
8% of Gross Sales (6d x .08)
\$8,000

The amount in Block 7 is exactly 8% of Gross Receipts or Allocable Sales for tip allocation and reporting purposes. Note: if you have received approval to lower the 8% amount from the IRS, please substitute the correct percentage. This number is the basis for any allocation that may be needed. Total Reported tips (from directly and indirectly tipped employees) must equal or exceed this number to avoid having to allocate.

BLOCK 8 - Directly Tipped Employee Tips

8
Directly Tipped Employees
Net Reported Tips Line 4 IRS Form 4070
\$5,700.00

In this section, enter the total of the net tips reported by your Directly Tipped Employees. These are employees who receive tips directly from a customer (whether the tip is in cash or charged). The number to enter will come directly from the total of your employees who signed IRS Form 4070 (Line 4) for the pay period.

It does NOT include amounts directly tipped employees paid out to other employees (as listed on Line 3 of IRS Form 4070). Those amounts are included in Block 9 below.

Note: If the amount entered in Block 8, plus the amount entered in Block 9b, equals or exceeds the amount in Block 7, you will not have to allocate this pay period (even though you will still have to complete the other portions of DA Form 5462-R. If it doesn't, you will be required to allocate under-reported tips this pay period.

BLOCK 9 - Indirectly Tipped Employee Tips

9	
Indirectly Tipped Employees	
a. Tips Reported Line 4 Form 4070	b. Tips Paid Out Line 3 Form 4070
\$500.00	\$500.00

In Block 9a, enter the total of the net tips reported by your Indirectly Tipped Employees on their IRS Forms 4070. Note: you should ensure indirectly tipped employees (those who receive tips from Directly Tipped Employees or from a tip pool arrangement) are advised that they you require them to submit this form to you. The amounts may be either cash or charge, but should still be the total shown on Line 4 of their IRS Form 4027. Block 9b is to report the total of Tips Paid Out, as listed on Line 3 of your Directly Tipped Employees IRS Form 4070. Recording both numbers allows you to compare the amount directly tipped employees report as paid out with the amounts indirectly tipped employees report as receiving.

Differences should be resolved prior to filing weekly payroll information. Note: IRS Form 4070A, the form employee's write down their daily tips (which are then added up and put on IRS Form 4070 every pay period) has a place for employees to list the individual(s) to whom they paid out tips.

The amount in Block 9b is the one used to determine the indirectly tipped employees reported tips for the purpose of meeting the 8% threshold, since it comes from your Directly Tipped Employees' IRS Form 4070 and 4070A. Therefore, you should encourage accurate reporting of tips paid out by your Directly Tipped Employees, and verification of indirect tips received from your indirectly tipped employees.

BLOCK 10 - Direct Employees Share of 8%

10
Direct Employees Share of 8% (7 - 9a)
\$7,500.00

Do NOT make a manual entry into Block 10 as it automatically calculates by subtracting the amount in Block 9b from Block 8.

The amount showing in Block 10 is essentially the amount of tips your Directly tipped employees should have reported, if the tip rate was 8% of applicable sales. Note that in Block 8 of this example, directly tipped employees reported only \$5,700 in direct tips. The number in Block 10 is only \$7,500 rather than \$8,000, because this amount is reduced by the amount of indirect tips reported as being paid out by your directly tipped employees.

ALLOCATE OR NOT

Based on the information you entered in the blocks above and the automatic calculations, the next block will specifically tell you if allocation is required, as follows:

If you must allocate for this pay period, the block will read:

ALLOCATION REQUIRED - Block 7 is Greater Than Blocks 8 + 9a - Complete Rest of Form
--

If you do not have to allocate this pay period, it will read:

DO NOT ALLOCATE - Block 7 is <= Blocks 8 + 9a. Only Complete Blocks 22 & Previous YTD Row of 23.
--

Remember, as allocating is based on the amount tips reported by direct and indirectly tipped employees as a percentage of applicable food and beverage sales, you may allocate some pay periods, and not allocate in others.

If you have to allocate, complete all of Part B, C, & D. If you do not have to allocate, complete Block 22 a & b of Part B, then all of Parts C and D.

PART B - Allocation To Employees

This section allows you to enter required information such as name, sales by employee, and reported tips and all the math requirements for allocation will be made automatically. The resulting allocation information can be transferred directly to DA Form 6463-R for transmission directly to the pay roll office.

BLOCK 11, 12, & 13 - Direct Employees ID Information

11		12	13
Name	Register Number	Work Center Code	SSN
A			012-34-5671
B			123-45-6789
C			234-56-7890
D			345-67-8901
E			456-78-9012
F			567-89-0123

In Blocks 11, 12, and 13, there is space for the employees name, register number (if you track employee sales with unique numbers on the cash register), Work Center Code (useful for tracking different departments or locations), and, the employee's Social Security Number (SSN). NOTE: Only list directly tipped employees. You never allocate to indirectly tipped employees.

The name and SSN are required, as you will need the information for reporting allocations to payroll. The other two data elements can be very useful if you have automated systems.

BLOCK 14 - Employees Sales

14	
Name	Employee Gross Sales
A	\$ 18,000.00
B	\$ 16,000.00
C	\$ 23,000.00
D	\$ 17,000.00
E	\$ 12,000.00
F	\$ 14,000.00
Total	\$ 100,000.00

You will enter each employee's applicable food and beverage sales in Block 14. Remember that you only enter information for directly tipped employees. The sales information can come from guest checks, cash register, a sales log sheet or any other accurate source.

It is the total of all cash and charge sales for each employee, though remember that you do not include excluded sales, such as carryout, sales with service charges of greater than 10%, etc.

Also, the entry must be for the entire payroll period. Even if the employee only worked during one day during the pay period, if the sales are part of this department or locations sale for that period, it must be listed.

The Total of Block 14 (\$100,000 in the example above) must MATCH the amount reported in Block 6d. Note that the Total of Block 14 automatically calculates based on the sales data entered for each employee. If the Total does not match the amount in Block 6d, re-check your addition of employee gross sales used to determine sales in Blocks 6 a, b, & c.

BLOCK 15 - Directly Tipped Employees Reported Tips

	15
Name	Net Tips from Directly Tipped Employees
A	\$ 1,080.00
B	\$ 880.00
C	\$ 1,810.00
D	\$ 800.00
E	\$ 450.00
F	\$ 680.00
Total	\$ 5,700.00

In Block 15, you will enter next to each employee's name, the total dollar amount of net tips they reported for that payroll period. Net tips are total tips received less tips paid out to indirectly tipped employees. The amounts should be taken directly from Line 4 of IRS Form 4070

The Total of Block 15 (\$7,500 in the example above) must MATCH the amount reported in Block 8.

Note that the Total of Block 15 automatically calculates based on the individual tip amounts entered for each employee. If the Total does not match the amount in Block 8, re-check your addition of employee gross sales used to determine tips in Block 8.

BLOCKS 16 & 17 - Employee Share of Tips

11	16	17
Name	Gross Sales Ratio (14/6d)	Employee Share of 8% Gross (10 x 16)
A	18.00%	\$ 1,350.00
B	16.00%	\$ 1,200.00
C	23.00%	\$ 1,725.00
D	17.00%	\$ 1,275.00
E	12.00%	\$ 900.00
F	14.00%	\$ 1,050.00
	Total	\$ 7,500.00

Blocks 16 and 17 are self-calculating. Do not make an entry in either block.

Block 16 shows the "Gross Sales Ratio" which is the amount of each directly tipped employee's sales as a percentage of total sales. It takes the employee sales number from Block 14, and divides it by total sales (Block 6d). In the example above, directly tipped employee "A" handled 18% of the sales for the payroll period.

Block 17 shows the Employees Share of 8% of Gross Sales - in other words, if each employee reported 8% of sales (in tips), the amount in Block 17 is the amount of net tips (cash and charged) that each employee should have reported. Note that the total of \$7,500 in Block 17 matches the number in Block 10.

Blocks 16 thru 21 are part of a series of chain calculations that the IRS requires to determine each employee's allocation amount. No individual entries are required as the form was created to calculate these numbers for you.

BLOCKS 18 & 19 - Shortfall

Blocks 18 and 19 are self-calculating. Do not make an entry in either block.

11	18	19
Name	Employee Shortfall (17 - 15)	Shortfall Ratio (18/18 Total)
A	\$ 270.00	14.3%
B	\$ 320.00	17.0%
C	\$ -	0.0%
D	\$ 475.00	25.2%
E	\$ 450.00	23.9%
F	\$ 370.00	19.6%
	\$ 1,885.00	

Block 18 shows the **Shortfall** for each employee - the difference between what the employees should have reported at 8% of employee sales (from Block 17) and the amount the employee actually reported (from Block 15).

Block 19 shows the ratio of each employee's shortfall, by taking the amount of each employee's individual shortfall, and dividing it by the total of all employee shortfalls. For example, employee "A" has a shortfall of \$270 (Block 17 \$1,350 minus Block 15 \$1,080 equals \$270). \$270 Shortfall divided by total shortfall of \$1,885 (Total of Block 18) equals 14.3%.

Therefore, 14.3% of the underreported tips will be assigned (allocated) to Employee "A" in the amount determined by Blocks 20 and 21.

Note that employee "C" does not have a Shortfall. That is because the employee reported MORE tips in Block 15, than the Employee Share of 8% of Gross Sales tip result in Block 17. DA Form 5462-R automatically excludes from allocation those with reported tips in excess of 8%.

BLOCKS 20 & 21 - Allocation

Blocks 20 and 21 are self-calculating. Do not make an entry in either block.

11	20	21
Name	Allocable Amount (7 - 8)	Individual Allocation (19 x 20)
A	\$ 1,800.00	\$ 257.82
B	\$ 1,800.00	\$ 305.57
C	\$ -	\$ -
D	\$ 1,800.00	\$ 453.58
E	\$ 1,800.00	\$ 429.71
F	\$ 1,800.00	\$ 353.32
	Total	\$ 1,800.00

Block 20 lists the Allocable Amount for this pay period. Note that it is the same number for everyone that will receive an allocation. That is because the Allocable Amount is based on the entire operation - the total tips reported versus total tips that should have been reported. Specifically, it takes the amount in Block 7 minus the amount in Block 8, and that result is listed for each employee that will receive an allocation.

Block 21 simply takes the amount in Block 20 and multiplies it by the percentage of the underreported amount in Block 19. For example, employee "A" had a ration of 14.3% in Block 19. Multiplied by \$1,800, employee "A" receives an allocation of \$257.82. This amount would be transferred to employee "A's" line under Allocation on DA Form 5463-R for reporting to payroll.

Note that the total of all individual allocations in Block 21 (\$1,800) is the same number as appears for each employee in Block 20. Also note that employee "C" does not receive an allocation because reported tips in Block 15 were higher than the "share" computed in Block 17.

BLOCKS 22 a & b - Other Information

The IRS also requires the reporting of two other data elements that are used by the IRS in making comparisons and to analyze reported information.

22a Total Minor Service Charges
\$ 125.00

The first is reporting the Total of Minor Service Charges that are less than 10%. Sales with service charges of 10% or more are excluded from “gross sales” for tip allocation purposes, and, if there is no other tipping in your activity that has a mandatory less than 10% service charge, this activity would probably also be excluded. However, you must still report the TOTAL of all minor service charges. Simple enter the amount, if any, for the current pay period, in Block 22a. You do not need to track it by employee.

22b. Total Charged Tips on Receipts
\$ 4,820.00

The second is reporting the Total Charged Tips on Receipts. You will retrieve this number from your actual charged receipts. As total charged receipts and charged tips are entered on your Daily Activity Report (DAR) your cash register roll up, or other system data files, it should be an easy number to retrieve. Note that this is NOT the same as adding up all the Credit Card Tips Received from Line 3 of IRS Form 4070. However, if your register or other system is showing one number, such as \$4,820 in the above example, and your employees are reporting a different amount, you should plan on advising affected employees that they are NOT reporting all tips received in compliance with the IRS rules.

**PART C - Cumulative Information for Transfer
to IRS Form 8027 at End of Calendar Year**

This section provides the information needed for completing the IRS Form 8027, which must be mailed to the IRS by the last day of February, with the preceding year's information.

If you fill out DA Form 5462-R each pay period, you will have no trouble completing IRS Form 8027, as this section creates the numbers you need, and even gives you the proper line on the IRS Form 8027 on which to transfer the information.

BLOCK 23a – Total Charged Tips On Receipts

For the first pay period of the year, you do not have to make any entries in Part C as the Current Year Data and Year to Date Data numbers are automatically entered.

23	23a. Total Charged Tips On Receipts (22b)
Previous YTD (From Last Pay Period)	\$ -
Current Period Data	\$ 4,820.00
Year to Date Data	\$ 4,820.00
Data To Transfer to IRS Form 8027	To Line 1, 8027

When you begin working on the second pay period, you will first call up a blank DA Form 5462-R. The only required data transfer (besides the name, address, and identification numbers) you need to do is to take the amount in the last row of each column in Block 23 (a thru h) from the first pay period, and manually enter that number into the row labeled "Previous YTD (From Last Pay Period)" onto the DA 5462-R for the second pay period.

You will repeat this same process for each pay period of the calendar year (generally, there are 26 pay periods in the calendar year).

In the illustration below, you will note that \$4,820.00 has been manually entered in the "Previous YTD (From Last Pay Period) row of Block 23a on a "new" DA Form 5462-R.

23	23a. Total Charged Tips On Receipts (22b)
Previous YTD (From Last Pay Period)	\$ 4,800.00
Current Period Data	
Year to Date Data	\$ 4,800.00
Data To Transfer to IRS Form 8027	To Line 1, 8027

After the data in Blocks 1-22 have been entered into the new (current pay roll period) form, a number will appear in “Current Period Data” (also \$4,820.00 in this example).

23	23a. Total Charged Tips On Receipts (22b)
Previous YTD (From Last Pay Period)	\$ 4,820.00
Current Period Data	\$ 4,820.00
Year to Date Data	\$ 9,640.00
Data To Transfer to IRS Form 8027	To Line 1, 8027

Once that number appears, the “Year to Date Data” will automatically change to reflect the total from both the Previous YTD and Current Period information. You will continue doing this through the end of the calendar year.

The same process applies to ALL of Block 23 from Block 23a to Block 23h. Remember, you must do DA Form 5462-R every pay period, even if you do not have to allocate in a particular pay period, to keep the year to date sales, tips, etc., up to date. If you don’t, you will have to complete IRS Form 8027 on a manual basis, which is almost impossible.

For the rest of Section C, the row titles (under Block 23) have been shortened for space purposes in the Guide but the headings are the same as they are on DA Form 5462-R.

As previously explained, the Current Period data is automatically calculated, as well as the YTD. You must only enter the prior payroll periods YTD number in the Previous YTD row on the one for the current pay period. Each data Block (a-h) has in the title, the source of the automatic data (such as 23d “Indirect Tips” info comes from Blocks 9a & b). Should you have any concern or questions about where the Current Period data is pulled from, you can refer to the referenced explanations for the source.

Remember that the last row of each Block tells you the specific line on IRS Form 8027 to transfer the information. The rest of this section will just highlight material explained in earlier sections

BLOCK 23b – Charge Sales with Charged Tips

Current Period information comes directly from your entry in Block 6b. At the end of the payroll year, transfer the number in YTD row to Line 2 of the IRS Form 8027.

23	23b. Charge Sales With Charged Tips (Block 6b)
Previous YTD	\$ -
Current Period	\$ 75,000.00
YTD	\$ 75,000.00
To 8027	To Line 2, 8027

BLOCKS 23c – Minor Service Charges

Current Period information comes directly from your entry in Block 22a. At the end of the payroll year, transfer the number in YTD row to Line 3 of the IRS Form 8027.

23	23c. Minor Service Charges (Block 22)
Previous YTD	\$ -
Current Period	\$ 125.00
YTD	\$ 125.00
To 8027	To Line 3, 8027

BLOCKS 23d – Indirect Tips

Current period information is automatically transferred from Block 9a (for “Reported”) and from Block 9b (for “From 4070”). Both are listed to allow you another check method to see if the amounts reported by individuals are different than the amounts recorded on the IRS Form 4070. Only the amount under “Reported” is transferred to IRS Form 8027. It must be placed on Line 4a.

23	23d. Indirect Tips	
	9a Reported	9b From 4070
Previous YTD	\$ -	
Current Period	\$ 500.00	\$ 500.00
YTD	\$ 500.00	
To Form 8027	To Line 4a, 8027	

BLOCKS 23e – Reported Direct Tips

This amount is automatically entered for the current period. It is taken from the amount in Block 8. At the end of the year, the YTD amount will be transferred directly to Line 4b of IRS Form 8027.

23	23e. Reported Direct Tips (Block 8)
Previous YTD	\$ -
Current Period	\$ 5,700.00
YTD	\$ 5,700.00
To Form 8027	To Line 4b, 8027

BLOCKS 23f – Total Reported Tips

This information is the total of Blocks 23d (which comes from 9a) and 23e (which comes from 8). At the end of the year the amount in 23f YTD row would be transferred to Line 4c of IRS Form 8027. Note: You do NOT enter the Previous YTD number as it is entered automatically for you.

23	23f. Total Reported Tips
Previous YTD	\$ -
Current Period	\$ 6,200.00
YTD	\$ 6,200.00
To Form 8027	To Line 4c, 8027

BLOCKS 23g – Gross Receipts

This information comes from Block 6d and at the end of the year, and the amount in the YTD column would be transferred to Line 5 of IRS Form 8027.

23	23g. Gross Receipts (Block 6d)
Previous YTD	\$ -
Current Period	\$ 100,000.00
YTD	\$ 100,000.00
To Form 8027	To Line 5, 8027

Place an "X"

This is the easiest section of the DA and IRS Form. You don't do anything here and on IRS Form 8027 you simply place an "X" on Line 6 and Line 7b.

23	Place an "X" on Line 6 and in 7b of IRS Form 8027.
Previous YTD	
Current Period	
YTD	
To Form 8027	

BLOCK 23h – Allocations

This number comes from the last row (total) of all the entries in Block 21. The YTD number is to be transferred at the end of the year to Line 7 of the IRS Form 8027.

23	23h. Allocations (Block 21 Total)
Previous YTD	\$ -
Current Period	\$ 1,800.00
YTD	\$ 1,800.00
To Form 8027	To Line 7, 8027

BLOCK 23i – Total Number of Directly Tipped Employees

This is a single number generated at the end of the year. It will be transferred to Line 8 of the IRS Form 8027. It includes all directly tipped employees you've employed during the year. Each individual counts – including part time or intermittent. If you file three IRS Forms 8027 for the same facility (because you have three different activities, a person working in each of the three during the year would be reported as an employee on each 8027. Naturally, this entry may be difficult to generate accurately, because of the way the NAF record keeping is set up. Payroll records may assist by listing each employee charged to a department during that year.

23	23i. Total Number of Directly Tipped Employees
Previous YTD	
Current Period	
YTD	
To Form 8027	To Line 8, 8027

PART D - Your Potential for a Review by the Internal Revenue Service

This can be your most “interesting” section! It will tell you (on a year to date basis) what your potential is for owing back FICA taxes. The IRS knows this information from your annual filing of IRS Form 8027, and your payroll records. This section of the form gives you the opportunity to fix any problems that develop during the year – by ensuring that ALL tips are reported.

**24. Potential For Additional
FICA Tax Being Owed (Lines
Based on 8027)**

Block 24 a, b, & c – Tip Rate Information

This section tells you your Charge Tip Rate Percent and Cash Tip Rate Percent from the information you filled out on DA Form 5462-R. It takes the appropriate data from your form and computes the results in the same manner as the IRS. The key result that the IRS is looking for is the Difference between the two percentages.

In the first row of the example below, the difference between the Charge Tip Rate Percent and the Cash Tip Rate Percent is less than 1%. It is colored “green” as it is within the acceptable range. As the entries in 24a and 24b are automatically computed, the results in 24c are also automatically computed.

If the results from 24a minus 24b were 2.0% to 4.0%, the result would appear in “yellow.” Note the second row for 24c below, which shows 24c as 2.50%. If the results were more than a 4% difference, the entry in 24c would appear “red”

a. Charge Tip Rate (Lines 1 / 2) 6.43%	b. Cash Tip Rate (Lines 4c-1 / 5-2) 5.52%	c. Difference (Charge % Minus Cash %) 0.91%
		c. Difference (Charge % Minus Cash %) 2.50%
		c. Difference (Charge % Minus Cash %) 4.50%

Again, no entries are required in any Block in Part D. Everything is automatically calculated for you, and you will be alerted on a year to date basis, each and every pay period, if your percentages are off enough to cause you the potential for being reviewed by the IRS and may be even subject to back FICA and other taxes.

As previously mentioned, at a restaurant where the employees reported a tip rate of 16.4% on charge receipts and a tip rate of 1.4% on cash receipts, the IRS asked the employer for back FICA taxes on the unreported cash receipts. After performing the math, the IRS calculated that the unreported tips by the employees totaled approximately \$423,298 and the restaurant’s FICA tax obligation on this unreported tip amount was \$31,790. The IRS did not perform individual audits of the employees nor was there any attempt by the IRS to levy FICA tax assessments against any individual employee.

Don’t let this happen to you!!!!

Block 24d. Additional Alert Section

This section re-emphasizes your status on a year to date basis every time you fill out a DA Form 5462-R. Your status will automatically be put in Block 24d and your status coded “green” for “status OK”; “YELLOW” for “you may have a problem; or “RED” for “you do have a problem”.

d. <u>Your Potential Status Based on Difference</u>		
<u><2.0%</u> GREEN	<u>2.0% - 4.0%</u>	<u>>4%</u>

d. <u>Your Potential Status Based on Difference</u>		
<u><2.0%</u>	<u>2.0% - 4.0%</u> YELLOW	<u>>4%</u>

d. <u>Your Potential Status Based on Difference</u>		
<u><2.0%</u>	<u>2.0% - 4.0%</u>	<u>>4%</u> RED

Note that the result in Block 24c automatically places your status as green, yellow, or red, in Block 24d. Again, do NOT make any manual entries in this section. If your status is Yellow or Red, please see Page 17 of this Guide for suggestions as to how to get yourself back to Green.

Block 24 e, f, & g. How Much Will I Owe the IRS?

The remaining blocks of DA Form 5462-R will show you:

- a. Potential Under Reported Tips (24e);
- b. Potential Employer Share of FICA on Under Reported Tips (24f)
- c. Potential Employee Share of FICA on Under Reported Tips (24g)

e. <u>Potential Under Reported Tips</u> <u>On Which FICA May be Owed</u> \$125.00	f. <u>Potential Employer Share of</u> <u>FICA on Under Reported Tips</u> \$9.56	g. <u>Potential Employee Share of</u> <u>FICA on Under Reported Tips</u> \$9.56
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The amount in 24e is simply the amount in 24d, calculated to estimate the amount of tips that should have been reported, but were not. Remember, this section analyzes under reporting of cash tips vs. charge tips, NOT for allocation purposes. There will almost always be an entry in 24e. So long as Block 24d shows you as “GREEN”, or maybe even “YELLOW”, it doesn’t matter.

If the entry in Block 24d is “RED” (or maybe “YELLOW”), particularly at the end of the year, you have the potential for a visit by the IRS and payment of the employer’s shares of back FICA taxes. Remember the court case example earlier: when there is a difference, the IRS can seek the employer’s share, and not seek any from the employee just from the difference in the reported charge vs. cash tips percentage.

Block 24f is provided mostly for information purposes only. Should you be subject to a review by the IRS, you will know ahead of time approximately how much it will cost your activity in back FICA taxes. Block 24g is also for information only, and it is up to the IRS to seek this amount from among the various employees.

Remember, being “green” is good and ensuring that your employees report cash tips at a percentage of sales that is within 2 percentage points of what is reported from charge tips, will go a long way towards making this entire process as simple as it can be.

General Information on DA Form 5462-R

This form was redesigned as a Microsoft Excel Worksheet. It can be copied and completed by hand; but the Worksheet contains the formulas that will greatly simplify compliance with this IRS reporting requirement. You can adjust the size (number of employees) by simply adding or subtracting rows. This will NOT affect any of the formulas, IF you add or delete rows BELOW the box for entry in Block 22b and at least two rows ABOVE the last row of PART B.

If you want to add rows, please go somewhere in the middle of Part B, insert as many rows as you need, and then COPY the row below your inserted rows into each of the added rows. If you have any questions on this, please seek guidance of someone familiar with Excel or contact this office.

You will also note that the “blank” format may have some entries such as “#value” in some blocks. This will automatically convert to numbers after you fill in your data.

Please do NOT enter a number manually into any cell that has a formula. This will destroy the formula and you will then have to do this form by hand.

When printing, please set your print codes to “Fit to 1 Page” and the paper setting to “landscape”. The numbers will be small, but it will fit on one page. It will also print on legal paper, “landscape” setting, if you’d like it a little larger.

Notice to Employee about Tip Reporting

Beginning in April 1983, the law requires your employer to notify the Internal Revenue Service when the tipped employees (employees who normally receive tip income from employment in that operation) have not reported tips equal to at least eight percent of the establishment's gross receipts. If total tips reported to your employer are less than eight percent of the employer's gross receipts, any deficiency (the difference between the eight percent and actual tips reported) will be divided among employees whom customers directly tip. This amount will also be reported as allocated tip income to the IRS and to directly tipped employees on their W-2 forms.

To avoid having tips allocated directly to tipped employees, these employees should accurately report their tips to the employer. Indirectly tipped employees, for example busboys, maitres d', and cooks, should also accurately report their tips to the employer.

In other words, if the tips employees report to the employer are below the eight percent level, an information report allocating additional tip income to the employees may be sent to the Internal Revenue Service. The Service may use this information when selecting returns it decides to examine. So, to lessen the likelihood of the IRS examining your return, make sure tip reporting is accurate.

The Priority of Withholding Taxes

In some instances when employers calculate the taxes to be withheld from a tipped employee's wages, including amounts to be withheld because of the employee's reported tips, the employer will discover the total to be withheld exceeds the cash wages due to the employee. The Internal Revenue Service has issued rules that state the order in which taxes should be deducted from cash wages (exclusive of tips that are under the employer's control). The priority is:

- 1. The employee's share of social security tax the employer is required to withhold on cash wages (exclusive of tips.)**
- 2. The federal income tax the employer is required to withhold on cash wages (exclusive of tips).**
- 3. The state and local withholding taxes the employer is required to withhold on cash wages (exclusive of tips).**
- 4. The employer's share of social security tax required to be withheld as computed on the tips reported to the employer.**
- 5. The federal income tax required to be withheld as computed on the tips reported to the employer.**
- 6. It appears that any other payroll deductions, such as union dues or wage garnishments, will only be deducted from the balance of funds remaining with the employer after taking into consideration the preceding five priorities.**

TIP ALLOCATION & TIP REPORTING WORKSHEET (Gross Receipts Method)

For use of this form, see AR 215-1; the proponent agency is OACSIM

1. Period Ending
16-Jan-01

Authority: 10 USC 3013
 Principal Purpose: Worksheet used to identify all tips reported by employees.
 Routine Uses: Used by management to determine total amount of tips received by employees which must be reported to the Internal Revenue Service for employee tax purposes. The Social Security Number (SSN) is used for identification of the individual and related records.
 Disclosure: Disclosure is mandatory and provides for employee compensation and tax deductions.

2. Installation Name, Work Center Code, POC & Address
Camp Swampy IMWRF (XX1Y00 or ZZ1YY), FMD John Smith, 123 Military Ave., Camp Swampy, MO 23121

3. Location
Officers' Club

4. Department
Main Bar

5. Employee Identification Number (EIN)
751744396

Estab. Type
4

Estab. Number
10001

6. Gross Receipts (F&B Sales Less Carryout Sales & Less Sales with a 10% or More Service Charge)
\$20,000.00

7. 8% of Gross Sales (6d x .08)
\$8,000.00

8. Directly Tipped Employees Net Reported Tips (Line 4 IRS Form 4070)
\$5,700.00

9. Indirectly Tipped Employees b. Tips Paid Out (Line 3 Form 4070)
\$500.00

10. Direct Employees Share of 8% (7 - 8)
\$7,500.00

11. **ALLOCATION REQUIRED - Block 7 is Greater Than Blocks 8 + 9a - Complete Rest of Form**

11 Name	12 Register Number	13 SSN	14 Employee Gross Sales	15 Net Tips from Directly Tipped Employees	16 Gross Sales Ratio (14/6d)	17 Employee Share of 8% Gross (10 x 16)	18 Employee Shortfall (17 - 15)	19 Shortfall Ratio (18/18 Total)	20 Allocable Amount (7 - 8)	21 Individual Allocation (19 x 20)	22a Total Minor Service Charges
A		012-34-5671	\$ 18,000.00	\$ 1,080.00	18.00%	\$ 1,350.00	\$ 270.00	14.3%	\$ 1,800.00	\$ 257.82	\$ 125.00
B		123-45-6789	\$ 16,000.00	\$ 880.00	16.00%	\$ 1,200.00	\$ 320.00	17.0%	\$ 1,800.00	\$ 305.57	
C		234-56-7890	\$ 23,000.00	\$ 1,810.00	23.00%	\$ 1,725.00	\$ -	0.0%	\$ -	\$ -	
D		345-67-8901	\$ 17,000.00	\$ 800.00	17.00%	\$ 1,275.00	\$ 475.00	25.2%	\$ 1,800.00	\$ 453.58	
E			\$ -	\$ -	0.00%	\$ -	\$ -	0.0%	\$ -	\$ -	
F			\$ -	\$ -	0.00%	\$ -	\$ -	0.0%	\$ -	\$ -	
TOTALS:			\$ 100,000.00	\$ 5,700.00		\$ 7,500.00	\$ 1,885.00		\$ -	\$ 1,800.00	

PART C - Cumulative Information for Transfer to IRS Form 8027 at End of Calendar Year

23	23a. Total Charged Tips On Receipts (22b)	23b. Charge Sales With Charged Tips (Block 6b)	23c. Minor Service Charges (Block 22)	23d. Indirect Tips Reported	23e. Reported Direct Tips (Block 8)	23f. Total Reported Tips	23g. Gross Receipts (Block 6d)	23h. Allocations (Block 21 Total)	23i. Total Number of Directly Tipped Employees
Previous YTD (From Last Pay Period)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Current Period Data	\$ 4,820.00	\$ 75,000.00	\$ 125.00	\$ 500.00	\$ 5,700.00	\$ 6,200.00	\$ 100,000.00	\$ 1,800.00	\$ 1,800.00
Year to Date Data	\$ 4,820.00	\$ 75,000.00	\$ 125.00	\$ 500.00	\$ 5,700.00	\$ 6,200.00	\$ 100,000.00	\$ 1,800.00	\$ 1,800.00
Data To Transfer to IRS Form 8027	To Line 1, 8027	To Line 2, 8027	To Line 3, 8027	To Line 4a, 8027	To Line 4b, 8027	To Line 4c, 8027	To Line 5, 8027	To Line 7, 8027	To Line 8, 8027

PART D - Your Potential for a Review by the Internal Revenue Service

24. Potential For Additional FICA Tax Being Owed (Lines 1/2) Based on 8027	a. Charge Tip Rate (Lines 1/2)	b. Cash Tip Rate (Lines 4c-1/5-2)	c. Difference (Charge % - Cash %)	d. Your Potential Status Based on Difference	e. Potential Under Reported Tips On Which FICA May be Owed	f. Potential Employer Share of FICA on Under-Reported Tips	g. Potential Employee Share of FICA on Under-Reported Tips
	6.43%	5.52%	0.91%	<2.0% GREEN	\$0.00	\$0.00	\$0.00

Department of the Army Installation/Fund Log

The list below assigns a range of five digit numbers to each standard installation NAFI code. 100 numbers have been assigned to each installation code. Most installations have several different NAFIs/funds operating at the installation. The numbers provided may be used for any of those funds at the installation. For example: Installation Code DA - Aberdeen PG, has a "1" or MWR fund, "2" Post Restaurant fund, "3" Civilian Welfare fund, and an "F" Army Lodging fund. Potentially all the different funds on the installation may have some employees that receive tips from food or beverage operations. There should be enough numbers to accommodate tipped employee outlets for all the different funds on any installation. Each installation is responsible for assigning the 5-digit numbers (consecutively) to those outlets that have employees who receive tips. These numbers will be used for completing IRS Form 8027 as well as DA Form 5462-R.

<u>Code</u>	<u>Installation Name</u>	<u>Fund</u>	<u>5-Digit Tip Allocation</u>
BH	DMATC	1	00001 THRU 00099
BH	DMATC	2	
BH	DMATC	3	
BJ	NIMA-WEST	2	00100 THRU 00199
BJ	NIMA-WEST	3	
BK	HALE KOA	D	00200 THRU 00299
BS	ARPERCEN	1	08100 THRU 08199
BU	USACRREL	3	08300 THRU 08399
BV	SEC ARMY	1	00300 THRU 00399
BV	SEC ARMY	G	
BW	USU HEALTH SCIENCE	2	00400 THRU 00499
BW	USU HEALTH SCIENCE	3	
DA	ABERDEEN PG	1	00500 THRU 00599
DA	ABERDEEN PG	2	
DA	ABERDEEN PG	3	
DA	ABERDEEN PG	F	
DB	ANNISTON	1	00600 THRU 00699
DB	ANNISTON	2	
DB	ANNISTON	3	
DD	LSSO SIMA	3	08400 THRU 08499

<u>Code</u>	<u>Installation Name</u>	<u>Fund</u>	<u>5-Digit Tip Allocation</u>
DG	HRY DMD LB	2	00700 THRU 00799
DG	HRY DMD LB	3	
DL	LETTERKNY	1	00800 THRU 00899
DL	LETTERKNY	2	
DL	LETTERKNY	3	
DL	LETTERKNY	F	
DM	BLUE GRASS	1	00900 THRU 00999
DM	BLUE GRASS	2	
DM	BLUE GRASS	3	
DN	MCALESTER	1	01000 THRU 01099
DN	MCALESTER	3	
DN	MCALESTER	F	
DP	MONMOUTH	1	01100 THRU 01199
DP	MONMOUTH	2	
DP	MONMOUTH	3	
DQ	NATICK	1	01200 THRU 01299
DQ	NATICK	2	
DQ	NATICK	3	
DQ	NATICK	F	
DS	PICATINNY	1	01300 THRU 01399
DS	PICATINNY	2	
DS	PICATINNY	3	
DS	PICATINNY	F	
DT	PINE BLUFF	1	01400 THRU 01499
DT	PINE BLUFF	3	
DT	PINE BLUFF	F	
DU	PUEBLO	2	01500 THRU 01599
DU	PUEBLO	3	
DU	PUEBLO	F	
DV	RED RIVER	1	01600 THRU 01699
DV	RED RIVER	2	
DV	RED RIVER	3	
DV	RED RIVER	F	

<u>Code</u>	<u>Installation Name</u>	<u>Fund</u>	<u>5-Digit Tip Allocation</u>
DW	REDSTONE	1	01700 THRU 01799
DW	REDSTONE	2	
DW	REDSTONE	3	
DW	REDSTONE	F	
DX	ROCK ISLND	1	01800 THRU 01899
DX	ROCK ISLND	2	
DX	ROCK ISLND	3	
DX	ROCK ISLND	F	
EB	SENECA	1	01900 THRU 0199
ED	SIERRA	1	02000 THRU 02099
ED	SIERRA	2	
ED	SIERRA	3	
ED	SIERRA	F	
EE	ST LOUIS	1	02100 THRU 02199
EF	SELFRIDGE	1	02200 THRU 02299
EF	SELFRIDGE	2	
EF	SELFRIDGE	3	
EF	SELFRIDGE	F	
EG	TOBYHANNA	1	02300 THRU 02399
EG	TOBYHANNA	2	
EG	TOBYHANNA	3	
EG	TOBYHANNA	F	
EH	TOOELE	1	02400 THRU 02499
EH	TOOELE	2	
EH	TOOELE	3	
EH	TOOELE	F	
EK	WATERVLIET	1	02500 THRU 02599
EK	WATERVLIET	2	
EK	WATERVLIET	3	
ER	LIMA	3	02600 THRU 02699
FB	FT BRAGG	1	02700 THRU 02799
FB	FT BRAGG	F	
FC	CAMPBELL	1	02800 THRU 02899
FC	CAMPBELL	F	
FC	CAMPBELL	G	

<u>Code</u>	<u>Installation Name</u>	<u>Fund</u>	<u>5-Digit Tip Allocation</u>
FD	CARSON	1	02900 THRU 02999
FD	CARSON	F	
FG	FT DRUM	1	03000 THRU 03100
FG	FT DRUM	F	
FH	FT HOOD	1	03100 THRU 03199
FH	FT HOOD	F	
FI	FT DIX	1	03200 THRU 03299
FI	FT DIX	F	
FL	FT IRWIN	1	03300 THRU 03399
FL	FT IRWIN	F	
FM	FT LEWIS	1	03400 THRU 03499
FM	FT LEWIS	F	
FN	FT MCCOY	1	08200 THRU 08299
FN	FT MCCOY	3	
FN	FT MCCOY	F	
FP	FT MCPHERSON	1	03500 THRU 03599
FP	FT MCPHERSON	F	
FT	FT POLK	1	03600 THRU 03699
FT	FT POLK	F	
FU	FT RILEY	1	03700 THRU 03799
FU	FT RILEY	F	
FW	FT STEWART	1	03800 THRU 03899
FW	FT STEWART	F	
FW	FT STEWART	G	
HB	WM BEAUMNT	3	08500 THRU 08599
HC	FT DETRICK	1	03900 THRU 03999
HC	FT DETRICK	3	
HC	FT DETRICK	F	
HE	FT SAM HOUSTN	1	04000 THRU 04099
HE	FT SAM HOUSTN	F	
HH	WALTER RD	1	04100 THRU 04199
HH	WALTER RD	3	

<u>Code</u>	<u>Installation Name</u>	<u>Fund</u>	<u>5-Digit Tip Allocation</u>
ID	SHADES OF GREEN	D	04200 THRU 04299
IF	DFAS DEVNER CTR	2	04300 THRU 04399
IG	COE, NEW ORLEANS	3	08600 THRU 08699
IJ	COE, SACREMENTO	3	08700 THRU 08799
IK	DFAS INDIANAPOLIS	3	08800 THRU 08899
IM	DFAS ROME	2	04400 THRU 04499
IM	DFAS ROME	3	
IO	REGGIES BEV CO, GA	1	04500 THRU 04599
IW	COE, HUNTSVILLE	3	08900 THRU 08999
IX	DFAS DAYTN (IX)	2	04600 THRU 04699
IX	DFAS DAYTN (IX)	3	
LB	DCSC	1	04700 THRU 04799
LB	DCSC	2	
LB	DCSC	3	
LB	DCSC	F	
LE	DCMD NORTHEAST(LE)	2	04800 THRU 04899
LE	DCMD NORTHEAST(LE)	3	
LL	DEF DP SUSQUEHANNA	1	04900 THRU 04999
LL	DEF DP SUSQUEHANNA	2	
LL	DEF DP SUSQUEHANNA	3	
LL	DEF DP SUSQUEHANNA	F	
LP	DD-REG WEST	1	05000 THRU 05099
LP	DD-REG WEST	2	
LP	DD-REG WEST	3	
LR	DGSC	1	05100 THRU 05199
LR	DGSC	2	
LR	DGSC	3	
LR	DGSC	F	
LY	DLSC	1	05200 THRU 05299
NC	NATL INT CTR (NC)	3	09000 THRU 09099

<u>Code</u>	<u>Installation Name</u>	<u>Fund</u>	<u>5-Digit Tip Allocation</u>
OC	DUGWAY PG	1	05300 THRU 05399
OC	DUGWAY PG	F	
OD	WHITE SANDS MR	1	05400 THRU 05499
OD	WHITE SANDS MR	2	
OD	WHITE SANDS MR	3	
OD	WHITE SANDS MR	F	
OE	YUMA PG	1	05500 THRU 05599
OE	YUMA PG	F	
PA	USMA INSTL	1	05600 THRU 05699
PA	USMA INSTL	F	
PA	USMA INSTL	G	
PB	USMA CADET FUNT	E	05700 THRU 05799
PB	USMA CADET FUNT	G	
PB	USMA CADET FUNT	J	
QB	HAWAII	1	05800 THRU 05899
QB	HAWAII	F	
QC	KILAUEA MC	1	
QD	ALASKA	1	05900 THRU 05999
QD	ALASKA	F	
RA	FT MYER	1	06000 THRU 06099
RA	FT MYER	3	
RA	FT MYER	F	
RE	FT BELVOIR	1	06100 THRU 06199
RE	FT BELVOIR	2	
RE	FT BELVOIR	3	
RE	FT BELVOIR	F	
RI	FT MEADE	1	6200 THRU 06299
RI	FT MEADE	3	
RI	FT MEADE	F	
RJ	A.P. HILL	1	6300 THRU 06399
RJ	A.P. HILL	F	
RK	FT HAMILTON	1	06400 THRU 06499
RK	FT HAMILTON	F	

<u>Code</u>	<u>Installation Name</u>	<u>Fund</u>	<u>5-Digit Tip Allocation</u>
TB	FT BENNING	1	06500 THRU 06599
TB	FT BENNING	F	
TB	FT BENNING	G	
TC	FT BLISS	1	06600 THRU 06699
TC	FT BLISS	F	
TD	CARLISLE BRKS	1	06700 THRU 06799
TD	CARLISLE BRKS	F	
TD	CARLISLE BRKS	G	
TD	CARLISLE BRKS	H	
TG	FT EUSTIS	1	06800 THRU 06899
TG	FT EUSTIS	F	
TH	FT GORDON	1	06900 THRU 06999
TH	FT GORDON	F	
TL	FT LEAVWH DISP	G	07000 THRU 07099
TM	FT JACKSON	1	07100 THRU 07199
TM	FT JACKSON	F	
TN	FT KNOX	1	07200 THRU 07299
TN	FT KNOX	2	
TN	FT KNOX	3	
TN	FT KNOX	F	
TN	FT KNOX	H	
TP	FT LEAVENWORTH	1	07300 THRU 07399
TP	FT LEAVENWORTH	F	
TQ	FT LEE	1	07400 THRU 07499
TQ	FT LEE	3	
TQ	FT LEE	F	
TS	FT MONROE	1	07500 THRU 07599
TS	FT MONROE	F	
TT	PRESIDIO OF MONT	1	07600 THRU 07699
TT	PRESIDIO OF MONT	F	
TU	FT RUCKER	1	07700 THRU 07799
TU	FT RUCKER	F	

<u>Code</u>	<u>Installation Name</u>	<u>Fund</u>	<u>5-Digit Tip Allocation</u>
TV	FT SILL	1	07800 THRU 07899
TV	FT SILL	F	
TW	FT LND WOOD	1	07900 THRU 07999
TW	FT LND WOOD	F	
TZ	FORT HUACHUCA	1	08000 THRU 08099
TZ	FORT HUACHUCA	3	
TZ	FORT HUACHUCA	F	

NOTE: Should additional numbers be required (all 100 in the installation sequence be used), please contact CFSC for assignment of an additional range of numbers. Do not select a new set of numbers on your own as they may have already been assigned to another installation.

IRS Forms & Publications

The forms and publications that you will need each year are as follows:

IRS Form 8027

IRS Form 8027T

Instructions for Form 8027

Publication 1872 IRS Employees Tip Guide

Publication 1875 IRS Employers Tip Guide

Publication 1244 (includes IRS Form 4027 and Form 4027A) – For Employees to report tips received to employer.

Note: Two other publications (Employer and Employee Guides) that are on Tips in general (rather than specifically for those in the food and beverage business) are IRS Publications 3144 and 3148. If you have any non-food and beverage tipped employees, such as a barbershop, you should also review these publications. Other publications and forms that may be of interest to primarily employees are:

Publication 505: Tax Withholding and Estimated Tax

Publication 531: Reporting Tip Income

Form 1040ES: Estimated Tax for Individuals

Form 4137: Social Security and Medicare Tax on Unreported Tip Income

You can order any of these forms and publications directly from the IRS by phone (1-800-829-3676), by a fax back machine (703-368-9694), or you can obtain them via the IRS web site at:

<http://www.irs.gov/>

Simply type in the form or publication number you'd like in the block in the upper left of your screen, where it says "Search Forms and Publications for:". A list of all related forms and publications will pop up, and you can download them for your use.

For easy reference, copies of IRS Form 8027, 8027T, and Instructions are included at the end of this Guide for calendar year 2001, as well as a copy of IRS Form 4070A (first and last page) and IRS Form 4070 (from IRS Publication 1244).



Instructions for Form 8027

Employer's Annual Information Return of Tip Income and Allocated Tips

Section references are to the Internal Revenue Code unless otherwise noted.

General Instructions

Items To Note

- Mark one of the new "yes" or "no" checkboxes under employer's name and address to indicate whether or not the establishment accepts credit cards or other credit arrangements. If the "Yes" box is marked, lines 1 and 2 of Form 8027 **must** be completed. Also see the instructions for lines 1 and 2 on page 3.
- Complete the **Worksheet for Determining Whether To File Form 8027** (below) if you are unsure about your requirement for filing Form 8027.
- You may want to use the **Employer's Optional Worksheet for Tipped Employees** on page 4 as a means of checking to see if your employees are reporting all of their tip income to you.

Purpose of Form

Form 8027 is used by large food or beverage establishments when the employer is required to make annual reports to the IRS on receipts from food or beverage operations and tips reported by employees.



All employees receiving \$20.00 or more a month in tips must report 100% of their tips to their employer.

Who Must File

If you are an employer who operates a large food or beverage establishment, you must file Form 8027. If you own more than one establishment, you must file Form 8027 for **each** one. There may be more than one establishment (business activity providing food or beverages) operating within a single building, and, if gross receipts are recorded separately, each activity is required to file a Form 8027.

A return is required only for establishments in the 50 states and the District of Columbia.



If you are required to report for more than one establishment, you must complete and file **Form 8027-T, Transmittal of Employer's Annual Information Return of Tip Income and Allocated Tips, with Forms 8027.**

A large food or beverage establishment is one to which **all** of the following apply:

- Food or beverage is provided for consumption on the premises.
- Tipping is a customary practice.
- More than 10 employees, who work more than 80 hours, were normally employed on a typical business day during the **preceding** calendar year.

Worksheet for Determining Whether To File Form 8027

Complete the worksheet below to determine if you had more than 10 employees on a typical business day during 2000 and, therefore, are required to file Form 8027 for 2001. It is the **average number of employee hours worked on a typical business day** that determines whether or not you employed more than 10 employees.

1. Enter **one-half** of the **total** employee hours worked during the month in 2000 with the **greatest** aggregate gross receipts from food and beverages _____
2. Enter the number of **days opened for business** during the month shown in line 1 _____
3. Enter **one-half** of the **total** employee hours worked during the month in 2000 with the **least** aggregate gross receipts from food and beverages _____

4. Enter the number of **days opened for business** during the month shown in line 3. _____
5. Divide line 1 by line 2. _____
6. Divide line 3 by line 4. _____
7. Add lines 5 and 6. If line 7 is greater than 80 (hours), you are required to file Form 8027 for 2001. _____

Note: The filing requirement (more than 10 employees) is based on the total of **all** employees who provided services in connection with the provision of food and beverages at the establishment, **not** just the number of directly tipped employees. Include employees such as waitstaff, bussers, bartenders, seat persons, wine stewards, cooks, and kitchen help. See Regulations section 31.6053-3(j)(10) for more information.

A person who owns 50% or more in value of the stock of a corporation that runs the establishment is not considered an employee when determining whether the establishment normally employs more than 10 individuals.

New large food or beverage establishment. File Form 8027 for a new large food or beverage establishment if, during any 2 consecutive calendar months, the average number of hours worked each business day by all employees is more than 80 hours. To figure the average number of employee hours worked each business day during a month, divide the total hours all employees worked during the month by the number of days the establishment was open for business. After the test is met for 2 consecutive months, you must file a return covering the rest of the year, beginning with the next payroll period.

Exceptions To Filing

A return is **not** required for:

- Establishments operated for less than 1 month in calendar year 2001.
- Fast food restaurants and operations where tipping is not customary such as cafeterias or operations where 95% of the total sales are carryout sales or sales with a service charge of 10% or more.

When To File

File Form 8027 (and Form 8027-T when filing more than one Form 8027) by **February 28, 2002**. However, the due date if you file electronically (not by magnetic media) is April 1, 2002.

Extension of time to file. Filers of Form 8027 submitted on paper, on magnetic media, or electronically may request an extension of time to file on **Form 8809, Request for Extension of Time To File Information Returns**. File Form 8809 as soon as you know an extension of time to file is necessary, but not later than **February 28, 2002**.

Where To File

File with the Internal Revenue Service Center, Andover, MA 05501.

Reporting on magnetic media. If you are the employer and you file 250 or more Forms 8027, you must file the returns on magnetic media (or electronically). For details, see Regulations section 301.6011-2.

Specifications for filing. Get the 2001 revision of **Pub. 1239, Specifications for Filing Form 8027, Employer's Annual Information Return of Tip Income and Allocated Tips, Magnetically/Electronically**. This publication provides instructions on how to file and how to request a waiver from magnetic media reporting because of undue hardship.

Penalties

The law provides for a penalty if you do not file Form 8027 (and Form 8027-T) on time unless you can show reasonable cause for the delay. Employers filing late (after the due date including extensions) should attach an explanation to the return to show reasonable cause.

You may be charged penalties for each failure to—

- Timely file an information return including failure to file on magnetic media, if required.

- Furnish the employee's TIN (taxpayer identification number, usually the social security number) on **Form W-2**, Wage and Tax Statement.
- Timely file Form W-2 and give a Form W-2 to the employee.
- Include your EIN on any return, statement, or document.
- Include correct information on a return or statement. This penalty applies to the omission of information as well as the inclusion of incorrect information.

Gross Receipts

Gross receipts include **all** receipts (other than **nonallocable receipts** – see definition below) from cash sales, charge receipts, charges to a hotel room (excluding tips charged to the hotel room if your accounting procedures allow these tips to be separated), and the retail value of complimentary food or beverages served to customers as explained below.

Also include charged tips in gross receipts, but **only** to the extent that you reduced your cash sales by the amount of any cash you paid to tipped employees for any charged tips due them. However, if you did not reduce cash sales for charged tips paid out to employees, do not include those charged tips in gross receipts. **Do not include state or local taxes in gross receipts.**



*Remind **all** your directly and indirectly tipped employees to include **all charged tips and all cash tips** received in the tip amount they must report to you.*

Nonallocable receipts. These are receipts for carryout sales and receipts with a service charge added to 10% or more. (Nonallocable receipts generally include all sales on which tipping is **not** customary.)

Complimentary items. Food or beverages served to customers without charge must be included in gross receipts if: **(a)** tipping for providing them is customary at the establishment, and **(b)** they are provided in connection with an activity that is engaged in for profit and whose receipts would not be included in the amount on line 5 of Form 8027.

For example, you would not have to include the retail value of complimentary hors d'oeuvres at your bar or a complimentary dessert served to a regular patron of your restaurant in gross receipts because the receipts of the bar or restaurant would be included in the amount on line 5. You would not have to include the value of a fruit basket placed in a hotel room in gross receipts since, generally, tipping for it is not customary.

However, you would have to include in gross receipts the retail value of the complimentary drinks served to customers in a gambling casino because tipping is customary, the gambling casino is an activity engaged in for profit, and the gambling receipts of the casino are not included in the amount on line 5.

Allocation of Tips

You must allocate tips among employees who receive them if the total tips reported to you during any payroll period are less than 8% (or the approved lower rate) of this establishment's gross receipts for that period.

Generally, the amount allocated is the difference between the total tips reported by employees and 8% (or the lower rate) of the **gross receipts**, other than nonallocable receipts.

Lower rate. You (or a majority of the employees) may request a lower rate (but not lower than 2%) by submitting an application to: Internal Revenue Service, Compliance Policy Group, S:C:CP:RC:ET — Room 2404, 1111 Constitution Ave., N.W., Washington, DC 20224. The burden of supplying sufficient information to allow the IRS to estimate with reasonable accuracy the actual tip rate of the establishment rests with the petitioner. Your petition for a lower rate must clearly demonstrate that a rate less than 8% should apply. It must include the following:

- Employer's name, address, and EIN.
- Establishment's name, address, and establishment number.
- Detailed description of the establishment that would help to determine the tip rate. The description should include the type of restaurant, days and hours of operation, type of service including any self-service, the person (waiter or waitress, cashier, etc.) to whom the customer pays the check, whether the check is paid before or after the meal, and whether alcohol is available.
- Past year's information shown on lines 1 through 6 of Form 8027 as well as total carryout sales; total charge sales; percentage of sales for breakfast, lunch, and dinner; average dollar amount of a guest check; service charge, if any, added to the check; and the percentage of sales with a service charge.
- Type of clientele.
- Copy of a representative menu for each meal.

The petition must contain the following statement and be signed by a responsible person who is authorized to make and sign a return, statement, or other document.

"Under penalties of perjury, I declare that I have examined this application, including accompanying documents, and to the best of my knowledge and belief, the facts presented in support of this petition are true, correct, and complete."

You **must** attach to the petition copies of Form 8027 (if any) filed for the 3 years prior to your petition. If you are petitioning for more than one establishment or you want to know your appeal rights, you should see Revenue Procedure 86-21, 1986-1 C.B. 560. Also include with your petition a check or money order made payable to the "**United States Treasury**" for the amount of the user fee required for determination letters. For the current user fee amount, contact the IRS at 1-800-829-1040.

A majority of all the directly tipped employees must consent to any petition written by an employee. A "majority of employees" means more than half of all the directly tipped employees employed by the establishment at the time the petition is filed. Employee groups **must** follow the procedures in Regulations section 31.6053-3(h), **Pub. 531**, Reporting Tip Income, and Revenue Procedure 86-21.

The IRS will notify you when and for how long the reduced rate is effective.

Reporting Allocated Tips To Employees

Give each employee who has been allocated tips a Form W-2 that shows the allocated amount in box 8. The form must be furnished to the employee by January 31 of the following year. If employment ends before the end of the year and the employee asks for the Form W-2, a tip allocation is not required on the early Form W-2. However, you may include on the early Form W-2 the employee's actual tip allocation or a good-faith estimate of the allocation. Signify a good-faith estimate by writing "estimate" next to the allocated amount in box 8 of the Form W-2.

If no allocation was shown on the early Form W-2 or if the estimated allocation on the early form differs from the actual amount by more than 5%, give the employee **Form W-2c**, Corrected Wage and Tax Statement, during January of the next year.

If you allocate tips among employees by the methods described in the instructions for lines 7a through 7c, you are not liable to any employee if any amount is improperly allocated. However, if the allocation shown on the employee's Form W-2 differs from the correct allocation by more than 5%, you must adjust that employee's allocation and must review the allocable amount of all other employees in the same establishment to assure that the error did not distort any other employee's share by more than 5%. Use Form W-2c to report the corrected allocation.

You do not have to send to the IRS separate copies of Forms W-2 showing allocated tips. The IRS will use the information shown on the Forms W-2 that you file with the Social Security Data Operations Center.

Tip allocations have no effect on withholding income or social security or Medicare taxes from employees' wages. Allocated tips are not subject to withholding and are not to be included in boxes 1, 3, 5, and 7, of Form W-2.

Specific Instructions

File a separate Form 8027 for each large food or beverage establishment. Use **Form 8027-T**, Transmittal of Employer's Annual Information Return of Tip Income and Allocated Tips, when filing more than one Form 8027. Do not attach any unrelated correspondence.

Name and address of establishment and employer identification number. Use the name and address label provided. Cross out any errors and print the correct information on the label. If you do not have a label, type or print the name and address of the establishment. They may be different from your name and address, as in the case of employers who have more than one establishment. If mail is not delivered to the address, enter the P.O. box number. The employer identification number (EIN) should be the same as the number on the Forms W-2 that you give to the employees and the **Form 941**, Employer's Quarterly Federal Tax Return, you file to report wages and taxes for employees working for the establishment.

Type of establishment. Mark the checkbox (**mark only one checkbox**) on the form that best describes the food or beverage operation at this establishment:

- An establishment that serves evening meals only (with or without alcoholic beverages).
- An establishment that serves evening and other meals (with or without alcoholic beverages).
- An establishment that serves only meals other than evening meals (with or without alcoholic beverages).
- An establishment that serves food, if at all, only as an incidental part of the business of serving alcoholic beverages.

Employer's name and address. Enter the name and address of the entity or individual whose EIN is shown above. Enter foreign addresses as follows: city, province or state, and country. **Do not** abbreviate the country name.

Establishment number. Enter a five-digit number to identify the individual establishments that you are reporting under the same EIN. Give each establishment a separate number. For example, each establishment could be numbered consecutively, starting with 00001.

Lines 1 Through 8

Credit card sales. You **must** complete lines 1 and 2 to report tips and sales (receipts) from credit cards and other credit arrangements.

Rounding off to whole dollars. You may round off your money entries to the nearest dollar. To round off cents to the nearest whole dollar on your form, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar. If you do round off, do so for all amounts. But if you have to add two or more amounts to figure the amount to enter on a line, include cents when adding and only round the total.

Line 1 — Total charged tips for calendar year 2001. Enter the total amount of tips that are shown on charge receipts for the year.

Line 2 — Total charge receipts showing charged tips. Enter the total sales (other than nonallocable receipts as defined on page 2) from charge receipts that had a charged tip shown. Include credit card charges and other credit arrangements and charges to a hotel room unless your normal accounting practice consistently excludes charges to a hotel room. **Do not** include any state or local taxes in the amounts reported.

Line 3 — Total amount of service charges of less than 10% paid as wages to employees. Enter the total amount of service charges of less than 10% that have been added to customers' bills and have been distributed to your employees for the year. In general, service charges added to the bill are not tips since the customer does not have a choice. These service charges are treated as wages and are includable on Form W-2. For details, see Revenue Ruling 69-28, 1969-1 C.B. 270.

Line 4a — Total tips reported by indirectly tipped employees. Enter the total amount of tips reported for the year by indirectly tipped employees, such as cooks, bussers, and service bartenders.

Line 4b — Total tips reported by directly tipped employees. Enter the total amount of tips reported for the year by directly tipped employees, such as bartenders and waitstaff.

 *In figuring the tips you should report for 2001, do not include tips received by employees in December 2000, but not reported until January 2001. However, include tips received by employees in December 2001, but not reported until January 2002.*

Line 5 — Gross receipts from food or beverage operations. Enter the total gross receipts from the provision of food or beverages for this establishment for the year.

If you do not charge separately for providing food or beverages along with other goods or services (such as a package deal for food and lodging), make a good-faith estimate of the gross receipts from the food or beverages. This estimate must reflect the cost to the employer for providing the food or beverage plus a reasonable profit factor.

Line 6. Enter the result of multiplying line 5 by 8% (.08) or a lower rate (if the establishment was granted a lower rate by the IRS).

If a lower percentage rate was granted, write the rate in the space provided and attach a copy of the IRS determination letter.

 *The 8% rate (or lower rate) is used for tip allocation purposes only. Using this rate does not mean that directly tipped employees must report only 8%. They should report the amount of actual tips received.*

 *If you have allocated tips using other than the calendar year, put an "X" on line 6 and enter the amount of allocated tips (if any) from your records on line 7. This may occur if you allocated tips based on the time period for which wages were paid or allocated on a quarterly basis.*

Line 7 — Allocation of tips. If 8% (or an approved lower rate) of gross receipts (line 6) is more than the amount of tips reported by your employees (line 4c), you must allocate the excess to those employees. Enter the excess on line 7. There are three methods by which you may allocate tips. Mark the checkbox on line 7a, b, or c to show the method used.

Line 7a — Hours-worked method. Establishments that employ fewer than the equivalent of 25 full-time employees (both tipped and nontipped employees) during a payroll period may use the hours-worked method to allocate tips. You will be considered to have employed fewer than the equivalent of 25 full-time employees during a payroll period if the average number of employee hours worked (both tipped and nontipped employees) per business day during a payroll period is less than 200 hours.

To allocate tips by the hours-worked method, follow the steps for the gross receipts method below. However, for the fraction in **step 3** of the gross receipts method, substitute in the numerator (top number) the number of hours worked by each employee who is tipped directly, and in the denominator (bottom number) the total number of hours worked by all employees who are directly tipped for the payroll period. See Regulations sections 31.6053-3(j)(19) and 31.6053-3(f)(1)(iv) for details.

If you use the hours-worked method, be sure to enter in line 7a the average number of employee (both tipped and nontipped) hours worked per business day during the payroll period. If the establishment has more than one payroll period, you must use the payroll period in which the greatest number of workers (both tipped and nontipped) were employed.

Line 7b — Gross receipts method. If no good-faith agreement (as explained below) **applies to the payroll period**, you must allocate the difference between total tips reported and 8% of gross receipts using the gross receipts method (or hours-worked method (line 7a)) as follows (**see example on page 4**):

1. Multiply the establishment's gross receipts (other than nonallocable receipts) for the payroll period by 8% (.08) or the lower rate.

2. Subtract from the amount figured in **step 1** the total amount of tips reported by employees who were tipped indirectly for the payroll period. This difference is the directly tipped employees' total share of 8% (or the lower rate) of the gross receipts of the establishment. Indirectly tipped employees do not receive tips directly from customers. Examples are bussers, service bartenders, and cooks. Directly tipped employees, such as waitstaff and bartenders, receive tips directly from customers. Employees, such as maitre d's, who receive tips directly from customers and indirectly through tip splitting or pooling, are treated as directly tipped employees.

3. For each employee who is tipped directly, multiply the result in **step 2** by the following fraction: the numerator (top number) is the amount of the establishment's gross receipts attributable to the employee, and the denominator (bottom number) is the gross receipts attributable to all directly tipped employees. The result is each directly tipped employee's share of 8% (or the lower rate) of the gross receipts for the payroll period.

4. From each directly tipped employee's share of 8% or the lower rate of the gross receipts figured in **step 3**, subtract the tips the employee reported for the payroll period. The result is each directly tipped employee's shortfall (if any) for the period.

5. From the amount figured in **step 1**, subtract the total tips reported by both directly and indirectly tipped employees. The result is the amount that has to be allocated among the directly tipped employees who had a shortfall for the payroll period as figured in **step 4**.

6. For each directly tipped employee who had a shortfall for the period as figured in **step 4**, multiply the amount in **step 5** by the following fraction: the numerator is the employee's shortfall (figured in **step 4**), and the denominator is the total shortfall of all directly tipped employees. The result is the amount of allocated tips for each directly tipped employee.

Line 7c — Good-faith agreement. An allocation can be made under a good-faith agreement. This is a written agreement between you and at least two-thirds of the employees of each occupational category of employees who receive tips (e.g., waitstaff, bussers, and maitre d's) working in the establishment when the agreement is adopted. The agreement must:

1. Provide for an allocation of the difference between total tips reported and 8% of gross receipts among employees who receive tips that approximates the actual distribution of tip income among the employees;

2. Be effective the first day of a payroll period that begins after the date the agreement is adopted, but no later than January 1 of the next year;

3. Be adopted when there are employees in each occupational category who would be affected by the agreement; **and**

4. Allow for revocation by a written agreement adopted by at least two-thirds of the employees in occupational categories affected by the agreement when it is revoked. The revocation is effective only at the beginning of a payroll period.

Line 8 — Total number of directly tipped employees. Enter the total number of directly tipped employees who worked at the establishment during 2001. This is the cumulative total of all directly tipped employees who worked at the establishment at any time during the year. If you have a large turnover of directly tipped employees, this number may be large. **Do not use this number to determine if you must file Form 8027.** Instead, see the **Worksheet for Determining Whether To File Form 8027**, on page 1.

Example for Line 7b — Gross receipts method. A large food or beverage establishment has gross receipts for a payroll period of \$100,000 and has tips reported for the payroll period of \$6,200. Directly

tipped employees reported \$5,700, while indirectly tipped employees reported \$500.

Directly tipped employees	Gross receipts for payroll period	Tips reported
A	\$18,000	\$1,080
B	16,000	880
C	23,000	1,810
D	17,000	800
E	12,000	450
F	14,000	680
	\$100,000	\$5,700

- \$100,000 (gross receipts) X .08 = \$8,000
- \$8,000 - \$500 (tips reported by indirectly tipped employees) = \$7,500

Directly tipped employees	Directly tipped employee's share of 8% of the gross	Gross receipts ratio	Employee's share of 8% of gross
A	\$7,500..... X	18,000/ 100,000 =	\$1,350
B	\$7,500..... X	16,000/ 100,000... =	1,200
C	\$7,500..... X	23,000/ 100,000... =	1,725
D	\$7,500..... X	17,000/ 100,000... =	1,275
E	\$7,500..... X	12,000/ 100,000... =	900
F	\$7,500..... X	14,000/ 100,000... =	1,050
			\$7,500

Directly tipped employees	Employee's share of 8% of the gross	Tips reported	Employee shortfall
A	\$1,350.....	\$1,080..... =	\$270
B	1,200.....	880..... =	320
C	1,725.....	1,810..... =	-
D	1,275.....	800..... =	475
E	900.....	450..... =	450
F	1,050.....	680..... =	370
	Total shortfall		\$1,885

- \$8,000 less \$6,200 (total tips reported) = \$1,800 (amount allocable among employees who had a shortfall)

Shortfall employees	Allocable amount	Shortfall ratio	Amount of allocation
A	\$1,800..... X	270/1,885 =	\$258
B	1,800..... X	320/1,885 =	306
D	1,800..... X	475/1,885 =	454
E	1,800..... X	450/1,885 =	430
F	1,800..... X	370/1,885 =	353

Because employee C has no shortfall, C gets no allocation.

TIP In this example, the total amount of allocation is \$1,801 resulting from the rounding off to whole numbers.

Employer's Optional Worksheet for Tipped Employees

Unreported tip income can lead to additional employer liability for FICA taxes. As a means of determining if your employees are reporting all of their tips to you, please take a few minutes to **voluntarily** complete the following worksheet. Completing this worksheet is only for the employer's information (it is not sent to the IRS).

- Enter amount from Form 8027, line 1 1. _____
- Enter amount from Form 8027, line 2 2. _____
- Divide line 1 by line 2, enter as a decimal (at least 4 decimal places) 3. _____
- Enter amount from Form 8027, line 4c 4. _____
- Enter amount from Form 8027, line 5 5. _____
- Divide line 4 by line 5, enter as a decimal (at least 4 decimal places) 6. _____
- Subtract line 6 from line 3; if zero or less, stop here 7. _____
- Potential unreported tips. Multiply line 7 by line 5 8. _____

Once you have completed the worksheet:

- If the entry on line 7 is zero or less, your employees are probably accurately reporting their tips; however,
- If there is an entry on line 8, depending on the type of operation you have and whether or not you have allocated tips, it is possible that your employees are not reporting all of their tip income to you.

Need Help?

If it appears that not all tips are being reported to you, the IRS offers a service called the **Tip Rate Determination & Education Program**. This program can assist you, the employer, in implementing more effective methods of tip income reporting. The program also offers assistance in educating tipped employees concerning their obligations relating to the reporting of any tip income they receive. To find out more about this program or to identify the IRS Tip Coordinator for your state, call 1-800-829-1040 or visit the IRS Web Site at www.irs.gov and search for "Voluntary Compliance Agreements."

Privacy Act and Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

Chapter 61, Information and Returns, of Subtitle F, Procedure and Administration, requires certain employers to report gross receipts, tips reported to them, and any allocated tips; and to furnish the amount of any allocated tips to affected employees. Section 6053 and its related regulations provide the definitions and methodology to be used in completing these forms. Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation, and to cities, states, and the District of Columbia for use in administering their tax laws. If you fail to provide this information in a timely manner you may be liable for penalties as provided by section 6721.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file these forms will vary depending on individual circumstances. The estimated average times are:

Forms	8027	8027-T
Recordkeeping	9 hr., 49 min.	43 min.
Learning about the law or the form	53 min.	
Preparing and sending the form to the IRS	1 hr.	4 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making these forms simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **Do not** send the tax forms to this address. Instead, see **Where To File** on page 1.

Employer's Annual Information Return of Tip Income and Allocated Tips

2001

Department of the Treasury
Internal Revenue Service

▶ See separate instructions.

Use IRS label. Make any necessary changes. Otherwise, please type or print.	Name of establishment	Employer identification number	Type of establishment (mark only one checkbox)
	Number and street (see instructions)		<input type="checkbox"/> 1 Evening meals only
	City or town, state, and ZIP code		<input type="checkbox"/> 2 Evening and other meals
			<input type="checkbox"/> 3 Meals other than evening meals
			<input type="checkbox"/> 4 Alcoholic beverages

Employer's name (same name as on Form 941)	Establishment number (see instructions)
Number and street (P.O. box, if applicable)	
Apt. or suite no.	

City, state, and ZIP code (if a foreign address, see instructions)

Does this establishment accept credit cards or other charges?	Yes <input type="checkbox"/> (lines 1 and 2 must be completed)	Mark if: Amended Return <input type="checkbox"/>
	No <input type="checkbox"/>	Final Return <input type="checkbox"/>

1	Total charged tips for calendar year 2001	1
2	Total charge receipts showing charged tips (see instructions)	2
3	Total amount of service charges of less than 10% paid as wages to employees	3
4a	Total tips reported by indirectly tipped employees	4a
4b	Total tips reported by directly tipped employees	4b
	Note: Complete the Employer's Optional Worksheet for Tipped Employees on page 4 of the instructions to determine potential unreported tips of your employees.	
4c	Total tips reported (add lines 4a and 4b)	4c
5	Gross receipts from food or beverage operations (see instructions)	5
6	Multiply line 5 by 8% (.08) or the lower rate shown here ▶ _____ granted by the IRS. (Attach a copy of the IRS determination letter to this return.)	6
	Note: If you have allocated tips using other than the calendar year (semimonthly, biweekly, quarterly, etc.), mark an "X" on line 6 and enter the amount of allocated tips from your records on line 7.	
7	Allocation of tips. If line 6 is more than line 4c, enter the excess here	7
	▶ This amount must be allocated as tips to tipped employees working in this establishment. Mark the checkbox below that shows the method used for the allocation. (Show the portion, if any, attributable to each employee in box 8 of the employee's Form W-2.)	
a	Allocation based on hours-worked method (see instructions for restriction). <input type="checkbox"/>	
	Note: If you marked the checkbox in line 7a, enter the average number of employee hours worked per business day during the payroll period. (see instructions) _____	
b	Allocation based on gross receipts method <input type="checkbox"/>	
c	Allocation based on good-faith agreement (Attach a copy of the agreement.) <input type="checkbox"/>	

8 Enter the total number of directly tipped employees at this establishment during 2001 ▶ _____

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Signature ▶ _____ Title ▶ _____ Date ▶ _____



Form **8027-T**

Department of the Treasury
Internal Revenue Service

**Transmittal of Employer's Annual
Information Return of Tip Income and Allocated Tips**

► For Privacy Act and Paperwork Reduction Act Notice, see
the Instructions for Form 8027.

OMB No. 1545-0714

2001

Use IRS label. Make any
necessary changes.
Otherwise, type or print
employer's name,
address, and employer
identification number as
shown on Form 941.

Employer's name

Employer identification number

Number and street (or P.O. box number, if mail is not delivered to street address.)

Apt. or suite no.

Number of accompanying Forms 8027

City or town, state, and ZIP code

Use Form 8027-T to send Forms 8027 to the
Internal Revenue Service Center if you have more
than one establishment for which you have to file
Form 8027.

File Form 8027-T along with accompanying Forms
8027 with the Internal Revenue Service Center,
Andover, MA 05501, by February 28, 2002.



Cat. No. 61006A

Form **8027-T** (2001)

Employee's Daily Record of Tips

This is a voluntary form provided for your convenience.
 See instructions for records you must keep.

OMB No. 1545-0065

Employee's name and address	Employer's name	Month and year
	Establishment name (if different)	

Date tips rec'd.	Date of entry	a. Tips received directly from customers and other employees	b. Credit card tips received	c. Tips paid out to other employees	d. Names of employees to whom you paid tips
1					
2					
3					
4					
5					
Subtotals					

For Paperwork Reduction Act Notice, see Instructions on the back of Form 4070.

Date tips rec'd.	Date of entry	a. Tips received directly from customers and other employees	b. Credit card tips received	c. Tips paid out to other employees	d. Names of employees to whom you paid tips
26					
27					
28					
29					
30					
31					
Subtotals from pages 1, 2, and 3					
Totals					

1. Report total cash tips (col. a) on Form 4070, line 1.
2. Report total credit card tips (col. b) on Form 4070, line 2.
3. Report total tips paid out (col. c) on Form 4070, line 3.

Employee's Report of Tips to Employer

► For Paperwork Reduction Act Notice, see back of form.

Employee's name and address	Social security number : :
Employer's name and address (include establishment name, if different)	1 Cash tips received
	2 Credit card tips received
	3 Tips paid out
Month or shorter period in which tips were received from , to	4 Net tips (lines 1 + 2 - 3)
Signature	Date