

## New to Restaurant Payroll? Here Are 8 Rules for Getting It Right

Posted by [Corie Stark](#) on Feb 26, 2020

Owning a restaurant comes with responsibilities to both patrons and employees. For patrons, food quality, a clean environment, and friendly customer service top the list. When it comes to employees, a safe working environment, proper training and equipment, and friendly managers and coworkers are key to keeping them engaged and happy. But one thing outweighs all other worker benefits: meeting expectations on payday. ***If you don't provide employees with the right amount of wages at the right time, everything else becomes irrelevant.***

Providing employees with their paychecks is a complex task for any employer, but especially for those in the restaurant industry. Processing payroll for restaurants comes with unique challenges, and that can make payroll stressful and time-consuming for owners.

### Minimize Extra Work Caused by High Turnover

While not a new challenge, high staff turnover is a common issue in the food-service industry.

The [Bureau of Labor Statistics](#) reported a 75% turnover rate in 2018 - with no signs of improvement. With that sky-high rate, the hiring and termination of employees can take a toll on your payroll process.

Onboarding a new employee is costly, and many restaurants do most of their new hire paperwork on physical paper, which is a time-consuming endeavor. ***If you can switch to a digital onboarding process, it can save many hours each year.*** As an example, if your new employee completes an electronic W-4 as part of the onboarding process, that information will automatically flow to the payroll system to establish proper withholding of federal income tax. Multiply that time savings by all the other new hire forms you have, and you can see how this can positively impact your business.

In addition to onboarding new employees, offboarding employees who are leaving your business creates extra work. It means understanding final paycheck laws and abiding by them - which can be particularly challenging in California where a terminated employee must leave with their final paycheck on their last day. While not all states have this level of final pay standards, nearly all states have some type of rule regarding when a terminated employee must receive their last paycheck. Check with your state department of labor for regulations in your home state.



## Accurately Track Pay Rates, Job Types, and Locations

Like many other businesses, restaurants are operated by individuals holding a variety of job types, from servers and cooks to bartenders and assistant managers, and each one may have a different pay rate. Keeping track of different wages isn't unique, but there are more complications for restaurants.

- Within a single job, such as cook, you may have different rates for different shifts, and an employee may cover more than one shift during a pay period.
- Similarly, some employees may work more than one job type within the same pay period.
- If you have multiple locations, employees may work in more than one location, and labor expenses will have to be allocated to the correct locations.

A good online time and attendance system that tracks all of this movement between shifts, job types, and locations will save time and reduce payroll errors.

## Know Your Minimum Wage for Tipped Employees

The federal minimum wage is \$7.25 per hour, but there is a \$5.12 per hour tip credit restaurants can use. That results in a minimum wage for tipped employees of \$2.13 per hour as long as tipped income brings the employee up to the \$7.25 per hour minimum.

**Several states and cities have higher minimum wage rates than the federal minimums, and it is important to be aware of changes, which typically happen January 1 or July 1.** States may also have different tip credits, so check with your state department of labor.

If the amount of tips an employee receives is not enough to bring the employee up to the federal or state minimum wage (whichever is greater), then the employer is responsible for making up the difference. However, in many cases, the amount of tips does cover the difference between the tipped employee minimum wage and the regular minimum wage.

The U.S. Department of Labor Wage and Hour Division has a [state minimum wage for tipped employees table](#) that is a useful resource for keeping up with changes. You can also bookmark your state department of labor minimum wage page.

## Navigate the Rules Around Tips and Tip Pooling

Understanding the ins and outs of tip pay is one of the more significant payroll challenges facing restaurant owners and managers. While tips are generally off-limits to employers, they do have a role to play in ensuring tips are treated according to federal and state rules.

**Across the U.S., laws regarding cash and check tips are the same – any tip left as cash or check is 100% the property of the employee to whom it was left.** Credit card tips are another matter, and it will depend on the state in which you operate. Some states require you to give your employees 100% of the tip, while others allow owners and managers to subtract the credit card processing fee from the tip.

Service charges that you automatically add to a customer's bill and then turn around and pay to service staff are considered wages, not tips. However, tips received through a tip-splitting or tip-pooling arrangement are considered tips, regardless of which employee actually received the tip.

Tip pooling or sharing involves adding tips employees receive and distributing the total among various staff members according to a defined policy. Supervisors, managers, and owners are not able to participate in tip sharing.

***Tip sharing is allowed among staff who have direct contact with tipping customers, such as servers and bartenders.*** And if the employer does not use the tip credit and pays workers the full minimum wage (or higher), the tip pool arrangement may include back-of-house employees as well. That way, workers who are not directly tipped, such as chefs and dishwashers, can receive a portion of tips.

The U.S. Department of Labor has issued a proposed rule to codify existing guidance on the treatment of tips. The final rule, which is expected later in 2020, also provides guidance on non-tipped duties performed by tipped employees with respect to the application of the tip credit. Visit the DOL's [Tip Regulations Under the Fair Labor Standards Act](#) page for details and updates.

## Encourage Employee Tip Reporting

Employers are not the only ones who need to know how to treat income from tips. ***Employees must record and report to you all tipped income if they receive \$20 or more in tips in a month, including tips paid via a tip pool, cash, check, debit card, and credit card.***

Employees can use the [IRS's official form](#) (Form 4070 from Publication 1244) to track and report all tips received in a month. The form is due to employers by the 10th of the following month, and employees can face penalties if they do not report tips to their employer as required. More information about employee responsibilities for tip reporting can be found in IRS [Publication 531](#), Reporting Tip Income.

Because tips are taxable income, it is important for employers and employees to work together to report them accurately.

## Claim the FICA Tip Tax Credit

***Ensure your employees report all tips to you so that your payroll tax calculations, filing, and payments are accurate.*** At the end of the year, if employees were paid total wages that exceeded the applicable minimum wage for your business location, you can take advantage of the FICA tip tax credit.

The FICA tip tax credit is a general business credit equal to the amount of employer Social Security and Medicare taxes you paid on wages over and above the minimum wage for each employee. The FICA tax tip credit is claimed using [IRS Form 8846](#).

If you have tipped employees and you are currently not filing Form 8846, you could be forgoing payroll tax savings. Talk with your accountant to learn more.

## Complete Form 8027 and Allocate Tips if Needed

Another employer IRS form related to tips, [Form 8027](#), *Employers Annual Information Return of Tip Income and Allocated Tips*, is due annually if you had more than ten employees during the previous year as calculated using the average number of employee hours worked on a typical business day. The IRS provides a worksheet within the [Form 8027 instructions](#) for determining if you meet the 10-employee test.

***Form 8027 requires you to report total tips, service charges, and gross receipts from food and beverages.*** If your total reported total tips amount is less than 8% of gross receipts, you must allocate the difference to your tipped

employees. You may request a rate that is lower than 8% from the IRS if you can prove a lower rate should apply to your business. If a lower rate is granted, you will use that in the allocated tip calculation on Form 8027.

Many payroll systems provide a Form 8027 report that contains the data you need to complete and file the form for your restaurant. Check with your payroll provider or your CPA.

## Understand Overtime Pay Rules and Calculations

Employers are required to meet strict overtime pay guidelines set out by the Fair Labor Standards Act. ***The tip credit makes overtime calculations a bit more work for restaurant employers than others.***

- Exempt employees do not have to be paid overtime; however, there are strict rules regarding classifying an employee as exempt. Most restaurant workers will not meet the job duties or salary tests to be considered exempt from overtime, but you should check the [Department of Labor's guidance](#) for more information.
- Overtime must be paid at a rate of at least one, and one-half times the nonexempt employee's regular rate of pay for each hour worked over 40 hours per week. In some states, like Alaska and Nevada, overtime is calculated based on hours worked per day and not 40 hours per week.
- If you take the tip credit, you cannot use the \$2.13 per hour tipped employee minimum wage for the overtime calculation. You must calculate the overtime rate using the \$7.25 per hour minimum wage and then subtract the \$5.12 tip credit  $[(\$7.25 \times 1.5) - \$5.12 = \$5.76]$ . Multiply \$5.76 by the number of overtime hours and add that to regular wages to find total pay for the week.
- Note that in determining the regular rate of pay for a tipped employee, all components of the employee's wages must be considered, including service charges and non-discretionary bonuses.
- If an employee works different jobs that have different pay rates, a weighted average calculation must be completed to determine regular pay rate.

***Scheduling and time tracking software can help you collect the data needed to manage overtime within your restaurant, and payroll software can help with the calculations.***

From high turnover to tip reporting, running a food business comes with many challenges that don't center around the grill. The key to a successful restaurant payroll operation is to take advantage of the resources available to you, including implementing digital efficiencies throughout the process and turning to trusted payroll and accounting experts for guidance.



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