

News from Senator

BOB DOLE



(R - Kansas)

SH 141 Hart Building, Washington, D.C. 20510

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CONTACT: WALT RIKER
(202) 224-6521

DOLE ISSUES CLARIFICATION ON NEW TIP REPORTING LAW

WASHINGTON -- Noting recently reported confusion over a new law designed to beef-up reporting of tip income for tax purposes, Senator Bob Dole (R.-Kans.) today released a detailed clarification of the tip reporting provision.

"The new rules require only information reporting, not withholding. Information reports on all allocated tip amounts not declared by the employee are required at yearend. Some employers have withheld income tax on such allocated amounts on the mistaken view that withholding was required," Senator Dole said. "While it is important that we secure a higher compliance level for tip income, it is equally important that we do not cause undue hardship for the hardworking employees of the hospitality industry."

Senator Dole noted that the law requires that restaurant owners should withhold income and social security taxes to the extent tips are reported to them by their employees, but not on tips that are merely allocated.

Beginning April 1, 1983, a bar or restaurant owner generally must allocate to tipped employees the excess of eight percent of gross receipts over the tips reported by the employees to the employer. Tip allocation is not required, however, for establishments with ten or fewer employees. The allocated tip income will appear on the employee's W-2 form. The amount of tips which actually should be included in the employee's gross income, of course, could be higher or lower, depending on the tips actually received. Moreover, employers whose employees require tips at less than an 8 percent rate should write the IRS to receive authority to allocate a lesser amount.

Senator Dole noted that a large percentage of tip income has gone unreported, according to the IRS. This low compliance rate was the reason for the new tip reporting rules. The tip reporting requirements are expected to generate \$4.9 billion in additional tax revenue over the next five years.

Employers who have incorrectly withheld taxes on allocated tips should refund the incorrectly withheld amounts to the employee, according to the IRS, and report only the correct amount on IRS Form 941, Employer's Quarterly Federal Tax Return. If the error is discovered after IRS Form 941 has been filed, the employer should correct the error by attaching IRS Form 941c, Statement to Correct Information, to the next Form 941 that is filed.