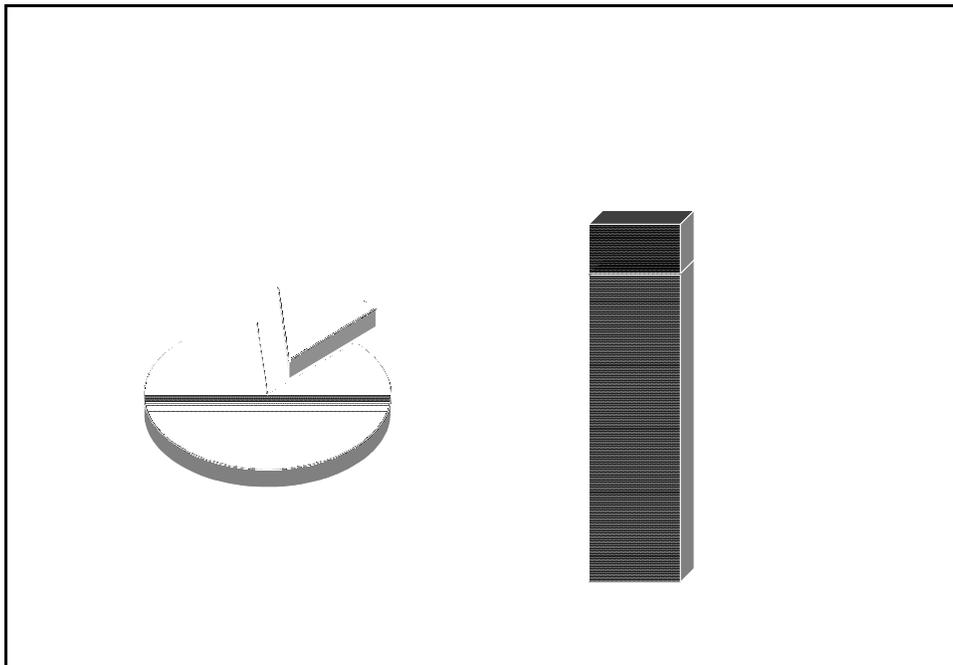


Pay out less in credit card tips and FICA. Deduct the credit card fee before paying the tips to your employees.

If Flora Enterprises has annual credit card sales of half a million dollars, with credit card tips averaging 16% and a 2% credit card fee, they could save over \$5,000 a year.

Annual tips are \$420,000. Two percent of that is \$4,800. Plus, they save the employer FICA on the \$4,800, for a total savings of \$5,167.20.

PayMaster Version 6.3 offers you an easy way to do this with it's **Chargeback %** on the Division screen.
cont'd on page 2



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Know any Fisher orphans?

Fisher Payroll was not updated to print the 1993 W-2s. They stopped supporting it before the end of the year. Many former Fisher users are now using *PayMaster*. Earn a finders fee when you put us in touch with a Fisher orphan who switches to *PayMaster*.

Use paragraph on page with division screen

Division screen showing chargeback %

New

improved tip files!

Users who want to enter tips on a daily or ad hoc basis will be very pleased with the improved tip files.
What's new?

1. When you scroll from server to server, your cursor remains on the same day, so it's fast and easy to enter each day's tips and receipts.
2. Totals are calculated automatically and appear in the lower right corner of each screen.
3. You can enter tips (but not receipts) for excluded and indirectly tipped employees.
4. If you enter a "chargeback percentage" on the INIT/DIVISION screen, the percentage you enter will be deducted from the charge tips you enter here and the difference will be brought into *PayMaster* when you process payroll. (See the article on page 1 of this issue.)

Debra Barr's charge tip screen

Tip files are cleared out when you update the files during processing of a payroll, but only for the dates of the pay period. (Processing a select check will not clear out the tip files. Processing a zero payroll will.)

If you pay out credit card tips in cash each night, enter tips in the tip files to get the report showing the chargeback amount to deduct from the employees' pay. Set up one of your miscellaneous deduction fields for this.

What is the law and why is the IRS picking on restaurants?

A **Washington Post** article, "IRS Program Targets Small-Business Owners", reports that the IRS

Want to see one? Seven are already done and are available for perusing in the disclosure reading room at

estimates tax compliance for small business and self-employed taxpayers at less than 50 percent.

To get some of what the IRS says is uncollected revenue of \$100 billion annually, they have developed the Market Segment Specialization Program. Teams of IRS auditors, researchers, and others are set up to examine specific industries *in great detail*. Taxpayers and industries mentioned as targets include, among others, restaurants; pizza parlors; auto dealers; travel agencies; lawyers; truckers; and taxicabs.

These IRS teams will be looking at the characteristics of the industry or profession, the income, normal expenses, and what are legitimate amounts for some expenses. They'll compile this information into "audit techniques guides" for each industry or profession, which will then be used by IRS examiners.

the IRS national office on Constitution Avenue NW in Washington, DC.

The IRS says that this is not an attempt to track down past cheaters. Instead, it's an effort to get businesses to comply in the future. Their surveys indicate that noncompliance is due more to errors, laziness, or ignorance of the law rather than deliberate falsification.

One of the early targets of the Market Segment Specialization Program was the restaurant industry in several Western states. The IRS found a lot of noncompliance, especially on tips. The restaurants and their employees came to an agreement with the IRS to pay the correct taxes in the future, and the IRS won't make too much of an issue of the past.

Do what you can to avoid penalties. One of the first steps is to make sure you're familiar with the laws concerning tipped employees.

What are those laws?
1. Employees must report 100% of their tips. A lot of them assume, mistakenly, that all they have to report is 8% of their receipts. Wrong. Where the 8% comes in is that it's the threshold for allocating tips.
2. Employers must pay OASDI and Medicare on all reported tips (up to the maximum wage base).
3. Tip credit can be taken toward minimum wage. This tip credit is the same dollar amount on the overtime hourly rate as it is on the regular hourly rate. See the Tip Credit article on page 4 for more information.
4. Record as credit card receipts only those on which there are credit card tips (see Form 8027). Credit card receipts without credit card tips are considered cash receipts.
5. Record service charges as wages rather than as tips. Compulsory service charges added to customers' bills in lieu of tips aren't considered tips—they're gross revenues to the employer. An employer who adds 12% to all customers' bills in lieu of tipping and then turns these charges over to the employees in lieu of a set salary doesn't violate the Law provided (1) the service charges equal at least the minimum wage, and (2) the employer uses these charges to calculate the employees' regular rate of pay and pay them time-and-a-half for overtime hours based on these calculations.
SERVICE CHARGES ADDED TO A CUSTOMER'S BILL ARE NOT TIPS, AND CANNOT BE USED FOR THE NEW TAX CREDIT.

Avoid penalties by using *PayMaster*. *PayMaster* takes the correct tip credit, and properly allocates tips. See the following articles on tip credit and allocation.

Tip Credit

Patricia Paul, owner of Jimmy Paul's Restaurant in Mt. Pleasant, PA, appreciates *PayMaster's* tip credit calculations. When they were visited by the Pennsylvania Wage & Hour Law auditor, she was asked how she did overtime pay for wait staff. She responded "1½ times their hourly rate." The auditor gleefully said "I always get an adjustment—everyone does that incorrectly." But when they checked *PayMaster*, the auditor saw that it **was** being done correctly. Patricia happily reported "it was a great disappointment to the auditor!"

Tip credit has always been one of the more complicated aspects of payroll for tipped employees. It's not surprising.

There are federal tip credit and minimum wage laws and there are state tip credit and minimum wage laws. Which takes precedence? The answer: Whichever is more beneficial to the employee.

Federal minimum wage is \$4.25 and tip credit is 50%, so you can pay a tipped employee \$2.125 —*unless* you're in a state with different laws that are more beneficial to the employee.

Examples:

California's minimum wage is \$4.25 and they have no tip credit, so you have to pay tipped employees the full minimum wage of \$4.25.

Washington State just raised their minimum wage to \$4.90 and took away the tip credit, so you pay tipped employees \$4.90.

Texas has a minimum wage of \$3.25 with a 50% tip credit, so, unless federal minimum wage doesn't apply to you (and it probably does) you can pay tipped employees \$2.125—the federal minimum wage after tip credit.

In *PayMaster*, there are two screens (INIT/COMPANY and DIVISION) where you respond to minimum wage/tip credit questions.

On the company screen enter the federal minimum wage and whether the federal wage-hour law applies to your company.

Company screen

Division screen showing tip credit

On the division screen enter your tip credit and state minimum wage, as well as your overtime rate.

Tip credit on overtime

If minimum wage is \$4.25 and your state allows a 50% tip credit, your regular rate of pay can be \$2.125, using \$2.125 as the tip credit. The overtime rate for that job is \$4.25 after applying the tip credit of \$2.125.

Steve Server's first job paying \$2.25 an hour has an overtime rate of \$4.375. To calculate it, *PayMaster* takes:

Minimum wage	\$4.25
Times overtime rate	<u>x 1.5</u>
	\$6.375
Plus amount of \$2.25 hourly rate over minimum of \$2.125	\$0.125
	\$6.500
Minus the tip credit	<u>- \$2.125</u>
Equals minimum overtime wage	<u>\$4.375</u>

His second job paying \$2.125 has as overtime rate of \$4.25. To calculate it, *PayMaster* takes:

Minimum wage	\$4.25
Times overtime rate	<u>x 1.5</u>
	\$6.375
Minus the tip credit	<u>- \$2.125</u>
Equals minimum overtime wage	<u>\$4.25</u>

His third job does not have tip credit, so the overtime rate (\$9.00) is a straight 1½ times the regular rate.

Steve Server's interactive screen

New business income tax credit

Tip credit takes on even more importance with the passage of the new law giving businesses an income tax credit on FICA paid on reported tips above the tip credit amount. Flora Enterprises will have a tax credit of \$43.22 on this one paycheck alone. Their tax credit: Steve Server's reported tips of \$738.10 minus his tip credit of \$173.13 (\$564.97) times 7.65% (\$43.22).

On *PayMaster* screens, respond *y* to **Tip credit?** for each tipped job, even if the job pays more than minimum wage. This is especially important now because of the new tax credit. If the employee also has a non-tipped job, respond *n* to **Tip credit?** for that job.

Tip Allocation

The IRS has long suspected that tipped employees were not reporting all of their income. And they wanted more tax money from them. But—how to get it without a lot of work? The IRS came up with a plan in 1983 to make the employer responsible for telling the IRS that *maybe* some specific employees were not reporting *all* of their tips. And they called this law *allocation*.

Allocation, according to Webster, is to "distribute by a plan". Allocation, according to the IRS, is to "tell us if your company's employees are reporting as tips less than 8% of total receipts, and if so, who, and how much is that employee's share of the shortfall."

The IRS says "no big thing." "It's just a reporting requirement. You (the employer) do not have to pay any taxes on allocated tips." Easy for them to say. They don't have to *calculate* the allocated tips. You do. But *PayMaster* will do it for you—very easily—giving you a number of choices.

Division screen

Flora's Bookends
Hotel division
allocates by pay
period and by
receipts.

You can allocate:

- each pay period (respond *y* to **Tip allocation**), or
- annually (respond *n*)

You can allocate:

- by receipts
(respond *r* to
Allocate by), or

- by hours worked (respond *h*)

Is it better to allocate by pay period or annually? Most employers like to allocate by pay period. This way the employee sees the allocated amount on the pay check stub, and may decide to start reporting more. Whereas if you wait until the end of the year to allocate, they won't see the amount until they get their W-2s. And then it's too late to report more if they want to.

If you allocate by receipts each pay period and some pay periods you have allocation and others you do not, you can have *PayMaster* re-calculate the allocation on an annual basis before printing your W-2s and eliminate some of those allocated tips. On the Division screen, change the **Tip allocation** response from *y* to *n*. Then, from the menu, choose CALCULATE/ALLOCATION to re-calculate annually. To return to pay period allocation, change the *n* back to *y* for **Tip allocation** on the Division screen.

Is it better to allocate by receipts or by hours? The IRS requires you to allocate by receipts if you have the equivalent of 25 or more full-time employees on an average workday. If you are unable to get individual server receipts and can get agreement from two-thirds of your employees in each category (directly tipped and indirectly tipped), you may allocate by hours. If allocating by hours, you need only the total receipts for the pay period. This works well if all hours worked are comparable. But often there is a big difference between tips/receipts during daytime and evening hours.

If allocating by agreement, be sure to check the appropriate box on Form 8027—**Allocation based on good faith agreement**, and you must send a copy of the agreement with Form 8027.

PayMaster allows you to indicate whether or not the hours for a job should be used in hourly allocation. One of Flora's locations allocates by hours. Sally Server, whose screen is shown below, has *y* as the response for both of her tipped jobs in the **Alloc/hr?** field on the employee screen.

Sally Server's employee screen

Cash and/or
charge tips can be
included in net
pay.

Flora's other
location
(Bookends Hotel) allocates by receipts and by pay period. Flora's get this Tip Allocation report as part of the pre-check register. It shows each employee's shortfall and the amount of their allocation.

Tip allocation report from pre-check register
showing employee shortfall

Tip allocation report from pre-check register
showing employee allocation amount

Who has to allocate?

"Large food and beverage establishments." Do you qualify? Yes, if you have normally employed more than 10 employees on a typical business day. How do you calculate this? The IRS has a formula to use. The *PayMaster* 6.0 manual (pp F-22 to F-23) gives an example of this calculation.

When do you report allocation?

You don't have to do any reporting of allocated tips until the end of the calendar year. At that time, you must report the allocated tips on an employee's W-2 and also on Form 8027 "Employer's Annual Information Return of Tip Income and Allocated Tips."

FLORA ENTERPRISES Form 8027 - BOOKENDS HOTEL Computer Aid Corp	
123 MAPLE STREET	Payroll System Ver 6.00
VIENNA, VA 22180	02-28-94 3:00 pm
Employer's Annual Information Return of Tip Income and Allocated Tips	
Total charge tips for period	\$47671.01
Total charge receipts (other than nonallocable receipts) on which there were charged tips for period	\$317806.70
Total amount of service charges of less than 10% paid as wages to employees for period	
<hr/>	
Total tips reported by indirectly tipped employees for period	\$31780.00
Total tips reported by directly tipped employees for period	\$163354.25
Total tips reported for period	\$167150.25
Gross receipts from food and beverage operations (other than nonallocable receipts) for period	\$2187257.98
Allocated tips	\$7830.39
Total number of directly tipped employees at this establishment	25

Which employees participate in the allocation?

Food and beverage employees, both directly and indirectly tipped. Directly tipped employees are servers and bartenders. Indirectly tipped employees (bussers) receive tips, but not directly from the customers. Their tips are included in tip allocation calculations, but they have no allocated tips. Excluded employees (valets and bellhops) are not part of tip allocation, but can get tip credit.

What does this mean for an employee who has allocated tips?

The IRS might come back to them and say "What's wrong? You're a lousy waiter? You only made 5% in tips?" If that happens, it's between the IRS and the employee. You, as an employer, are not responsible for making the employee report more than what they report. You are responsible only for telling the IRS if the employees, as a group, reported less than 8% of receipts, and what each employee's share of the shortfall was.

Maybe the employee is a lousy waiter and made only 5%. But, suppose he is audited by the IRS. The IRS can subpoena your records. If they discover, maybe based on credit card receipts you have to keep for a certain number of years, that the employee actually made 15%, the employee would have to pay taxes, plus penalties and interest. And you, the employer, would have to pay employer FICA on the underreported amount, plus interest.

, + -

A red flag to the IRS—take a look at Form 8027 shown above. It asks for **Total charge tips** and **Total tips reported**. Print your *PayMaster* Report 8027. If total charge tips are greater than your total tips

reported, the IRS is going to be on your doorstep wanting to look at your records. And they will also be on the doorsteps of your tipped employees.

Notice also that Form 8027 asks for **Total charge receipts (other than nonallocable receipts) showing charge tips**. This means the IRS wants you to subtract charge receipts with cash tips or no tips from this amount. Some cash register systems may do this for you, but for others to comply, it's a time-consuming calculation.

What do you do if employees report charge tips that are less than those shown on the credit card receipts—which you, as the employer, must keep for a certain number of years and are thus available for audit?

Some companies solve this problem by paying the credit card tips in the paycheck. That way there's no question about the amount reported. *PayMaster* gives you the flexibility to do that. You indicate for each employee whether or not cash and/or charge tips are included in net pay. See Sally Server's screen on page 7.

Tax law changes

[All changes effective 1/1/94 unless otherwise indicated.]

Federal

Make sure your INIT/TAX/FICA screen looks like this instead of zero for #4:

Tax Tables (annual)	
Type: FICA	Code: Name: Subtitle:
[1]Annual OASDI rate (percent):	6.20
[2]Annual Medicare rate (percent):	1.45
[3]Maximum subject to OASDI tax:	60600.00
[4]Maximum subject to Medicare tax:	999999.99

New business income tax credit for employer FICA equal to tax obligation (7.65%) attributable to reported tips in excess of those treated as wages for purposes of satisfying minimum wage requirements.

State withholding

New withholding tables for:

HI	RI
ME	SC
MN	UT
NM	VT

State unemployment

Taxable wage bases:		
AL	\$8,000	OK
	\$10,700	
ND	\$13,000	RI
	\$16,400	
NJ	\$17,200	UT
	\$16,200	

State disability insurance

HI	Maximum per week \$2.94
NJ	.5% of first \$17,200

State Wage & Hour

WA	Minimum wage \$4.90. No tip credit.
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User spotlight cont'd from page 11

Tommy then bought Great Plains payroll but found that it did not have the turnaround (input) sheet for the managers to fill out, and did not do tip allocation. You had to calculate it yourself, using a spreadsheet, before entering it in their program. Based on Steve's advice, they got *PayMaster* because it had everything in it that they need. "Computer Aid wrote a special program to bring our Fisher employee and pay data into *PayMaster* so we could print our 1993 W-2s." Wanda said "I can't even imagine how long it would have taken to rekey 2,000 employees!"

Tommy Woodrum and Wanda Scott of Restaurant Management of SC, Inc.

"*PayMaster* is much easier to use than Fisher, and a lot quicker. I do payroll for five Shoney's and eight Captain D's. The larger Shoney stores take an hour each, at the most. The Captain D's each take less than 20 minutes. Another real time-saver is *PayMaster's* ability to issue a bonus and/or vacation pay on the regular paycheck for the period."

THE BLUE PAGES

published quarterly by
Computer Aid Corporation®
and distributed to all
registered licensees of *PayMaster*.

Publisher: Donna Rosen
Editor: Susan Kousek

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Q & A

Q. What exactly are *reported tips*?

A. Reported tips are what your employees tell you they make—what they report to you.

Q. How should my employees report tips to me?

A. They can use Form 4070, write the tips on the back of their time cards, or enter them in a time clock or cash register. (Yes, the IRS does accept these as if it's a written record.)

Q. What's the best way to record my employees' tips in *PayMaster*?

A. You have a lot of options: [1] To get the credit card tip chargeback report, and/or if you like to enter tips on a daily or ad hoc basis, use the tip files. [2] If you like to enter receipts and tips for the pay period, or are using a time-keeping device for hours/tips, use the batch screen. [3] If you like to see the calculations as they happen, use the interactive screens.

If you pay out your credit card tips in cash each night, use the tip files to get the report showing the chargeback amount to deduct from the employees' pay. Set up one of your miscellaneous deduction fields for this.

Q. Can I still use the batch screen if I use the tip files?

A. Yes, enter everything except the receipts and tips on the batch screen. Once you process by pressing <END>, *PayMaster* will bring in the receipts and tips from the tip files. You'll see everything there if you go to "make corrections."

Q. Our employees receive their credit card tips in cash each night, so aren't these cash tips?

A. No, they are considered charge tips because the customer paid them with a credit card.

Q. Is it better to include credit card tips in net pay?

A. If your employees are reporting less than what the credit card shows, this could very well lead to audits by the IRS. Including the credit card tips in net pay eliminates this problem.

Q. Do I have to track the cash and charge receipts and tips separately?

A. Form 8027 asks for charge tips and charge receipts on which there were charge tips as separate amounts from cash receipts/tips. Note: charge receipts without charge tips are not to be included in the charge receipts amount.

Q. Why does *PayMaster* record the tip credit?

A. This is the amount you don't need to pay to tipped employees in actual wages. It's also the figure to subtract from reported tips to calculate the new business income tax credit (employer FICA on this amount).

Q. What's the minimum wage adjustment?

A. If a tip credit employee does not make enough in tips to bring him/her up to minimum wage, you must pay the employee a minimum wage adjustment. *PayMaster* automatically calculates and pays it. It leaves nothing for the Wage & Hour law auditor!

Throughout the BLUE PAGES there are references to payroll tax laws and requirements in effect as of the date specified. These references to the laws and the explanations provided are designed to familiarize the employer with said laws, but are not meant to serve either as a legal or accounting opinion, or as any indication that reference to the Internal Revenue Code or Regulations issued thereunder and appropriate administrative or court rulings interpreting same is unnecessary. All persons using this newsletter should look to and rely upon their respective legal counsel and accountants with respect to these laws and requirements.

User Spotlight on Hospitality Resources, Inc. and Restaurant Management of SC, Inc. processing Shoney's restaurant payrolls

"PayMaster is the only program I could find to handle all the diverse state laws on both leasing and cafeteria plans."

Steve Barwick, Hospitality Resources Inc.

"Computer Aid saved us days of rekeying when we switched from Fisher to PayMaster at W-2 time."

Tommy Woodrum, Restaurant Management of SC, Inc.

Hospitality Resources Inc. (HRI), of Sumter, South Carolina, leases employees to 48 Shoney's and Captain D's restaurants in 12 states from Florida to Oklahoma. In addition, they have 13 non-restaurant locations. With over 3,000 employees and both 401(k) and cafeteria plans offered to the leased employees, HRI requires an extremely sophisticated payroll program.

Steve Barwick, president of HRI, says, "I switched to *PayMaster* in 1991 because it was so user-friendly for the restaurant environment. It handles allocation and all the tip reporting. It's the only one I could find to handle all the diverse state laws on both leasing & cafeteria plans."

"I was preparing quarterly tax returns with a Lotus spreadsheet because the Fisher payroll program I was using didn't compute unemployment wages correctly for tipped employees. I was processing payroll for only twelve stores, but decided in order to grow I needed a program to get payrolls out on time and to quickly do inputting."

"I selected *PayMaster* because it did ALL taxes correctly for all employees, including tipped employees with cafeteria plans. The batch input was so quick that payroll processing could be done for many employees in a short time."

Beth Knopp, along with Maxine Harrington, Geri Mitchell and Bonnie Lawrence, process the HRI payrolls. Beth says, "Our old program couldn't handle our current work. We need to file magnetic media quarterly returns for Florida and Colorado...scannable reports for Illinois...local withholding reports for Kentucky...magnetic media W-2's for Social Security..., etc. It was hard to get support for our old program and running W-2's was a nightmare. We had to do them four times one year."

"*PayMaster* is easy and quick to learn, entry is fast and the calculations are quick. The support is wonderful—fantastic! Someone gets back to me in the same hour and if they don't know immediately, I'll get an answer very soon. That's real important when you're doing 10-15 payrolls a day with approximately 50 employees each."

Maxine Harrington and Beth Knopp of HRI

"6.0 **Xtra** saves us so much time. We use the check history all the time for child support enforcement, social service employment verification, and credit checks for bank loans. It's great to have the 'hours worked' because many of the requests require it. Before we had to go back and manually look them up. The workers comp requests always need hours."

"We use the phone list for benefits—it shows active employees, so we can check it against the list of employees on the health insurance invoice each month. An employee is eligible for benefits after three months. Frequently they're not working when the three months is up & the phone list gives us a quick way to check."

"*PayMaster* has several 'safety' features that are reassuring to have. Several software packages we had looked at actually processed the payroll and **then** we looked for mistakes and would have to void checks. With *PayMaster*, we double check payroll and totals **before** we update and print checks."

Steve originally worked for Tommy Woodrum, Restaurant Management of SC, Inc., in Sumter, SC, doing payroll for Tommy's Captain D's and Shoney's.

Steve recommended *PayMaster* to Tommy and his brother, Glenn Woodrum, president of Restaurant Management of SC, Inc. The Woodrums had been using Fisher payroll, but Fisher stopped upgrading their payroll program so they would not be able to use it to do the 1993 W-2s.

cont'd on page 9

Keep current with your *PayMaster* program so you can take advantage of the new 1120 business income tax credit.

New income tax credit report

Not just for restaurants! For any tipped establishment! Parking lots, car washes, beauty/barber shops, pizza deliveries, take-out taxis. You can find this report in *PayMaster* 6.3 under REPORTS/OTHER.

New income tax credit report

New chargeback report

Found in *PayMaster* 6.3 on the TIP FILES submenu.

New chargeback report