

PayMaster's tip reporting is essential not just for restaurants and hotels... PPS Parking, Inc. couldn't live without it either.

☐ Tipped industries

The food service industry isn't the only industry with employees who receive tips. **And** it isn't the only industry being targeted by the IRS. The hairstyling and gaming industries have also come to the IRS' attention. And they are starting to look at other tipped industries, such as taxi drivers, skycaps, valets, and limousine drivers.



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PPS Parking, Inc., spotlighted on page 7 in this issue, has been using PayMaster™ since 1984. Karen Such, PPS Parking's Controller, says "We've always had our employees report tips, which is one reason we first looked at

PayMaster when we decided to computerize payroll. Not only did it offer separate



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reports for each account – the breakout was everything we wanted to see – it also did everything we needed for reporting tips."

☐ The IRS's Tip Agreements

As a way to improve tip reporting compliance in the food service industry, the IRS first introduced its Market Segment Understandings (MSU) in 1993.

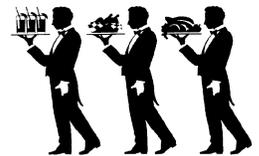
As part of the MSU program, they developed TRACs (Tip Reporting Alternative Commitment) for the food service and hairstyling industries and a TRDA (Tip Rate Determination Agreement) for the gaming industry. Agreements for other industries where tipping is customary are also being developed.



As a result, the IRS says the amount of tips reported nationwide has increased more than \$2 billion per year.

If your company is in one of these targeted industries, you may already have been contacted by the IRS about voluntarily signing one of their agreements. They say that more than 8,000 employers (twice the number than in late 1997)

covering over 33,000 restaurants have joined the program. Samples of the agreements can be seen on the IRS's web site at www.irs.gov/plain/bus_info/msu-info.html.



The IRS says the program is voluntary. They consider it "a way to address noncompliance through education rather than through audits." So, remember, if you are already in compliance, you do not have to sign any agreement. And, the IRS is prohibited from threatening audits to coerce restaurants into tip reporting. If threatened, employers can call Tom Burger, Director of the IRS Office of Employment Tax Administration & Compliance, personally at 202-622-3650.

Reminders!

- Process **end of month/quarter** at the end of each quarter, so your new quarter figures will be accurate.
- Submit New Hire reports to your state on a timely basis to avoid penalties.

Continued on page 2

Tipped payroll, cont'd from p. 1

The IRS says that “employers benefit from the program by not being subject to unplanned tax liabilities. Benefits to employees include the increase in their Social Security, unemployment, retirement plan, and worker’s compensation benefits.”

If you do sign an agreement, a TRAC is better than a TRDA from the employer’s point of view. TRDAs require employers and employees to pay FICA taxes on an agreed-upon percentage of receipts, regardless of the actual amount received in tips. TRACs require the employer to establish a procedure for recording cash and charged tips on an employee-by-employee basis and to educate all tipped employees quarterly about tip reporting laws.

Forewarned is forearmed.

If you’ve signed a TRAC, *PayMaster* can help you meet its requirements. You can:

1. Use *PayMaster's* feature that allows payment of charged tips in net pay. This eliminates the possibility of under-reporting of charged tips (for which there is an audit trail).
2. Use *PayMaster* to track the information needed for your annual Form 8027 (required for “large food and beverage establishments”). And review it on a regular basis. (Please see *PayMaster's* 8027 report and the IRS Form 8027 on page 3).

3. Notify tipped employees that their *PayMaster* check stub shows receipts and tips.
4. To verify that reported tips are correct, use *PayMaster's* tip report (shown below) as a sign-off sheet when employees pick up their paychecks.

3. Ensure that you are reporting the correct amount of charged tips— which should be possible since you have an accurate (and auditable) figure for them.
4. If you are a “large food and beverage establishment”, file your annual Form 8027 (shown

PayMaster's Tip Report can be used to meet TRAC requirements. It shows each employee’s cash and charge percentages.

PayMaster's tip report shows not only cash & charged receipts and tips by employee, but also shows each employee's cash and charged tip **percentages**.

5. Use *PayMaster* to print the FICA (OASDI & Medicare) Credit on Tips report so you can take the tax credit when you file your corporate income taxes (food or beverage establishments only).
- What should you be doing even if you haven't signed a TRAC?
1. Educate your employees—the law is that they are to report 100% of their tips.
 2. Make sure that indirectly tipped employees are reporting their share of the tips.

on the next page) — reporting cash and charged tips and receipts, and allocated tips.

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Tipped payroll, cont'd from p. 2

5. If you are a food or beverage establishment, make sure you take your tax credit on Employer FICA on Excess Tips shown on page 4.

When you use *PayMaster* and take full advantage of its features, you know what your employees are reporting:

the law, the IRS programs, the court case decisions (see the table on page 5), and the *PayMaster* reports that show what your employees are reporting as tips.

PayMaster's 8027 Report gives you all of the information you need to complete your Form 8027 (shown above right).

- ◆ cash receipts by server for each payroll,
- ◆ charged receipts by server for each payroll,
- ◆ cash tips & tip percentage by server for each payroll,
- ◆ charged tips & tip percentage by server for each payroll,
- ◆ tips received by indirectly tipped employees, and
- ◆ total receipts and total tips for the division, and the percentage of tips to receipts.

Be prepared. Keep informed about

What are the tip laws?

1. Employees who receive tips (in **any** industry) must report 100% of their tips. A lot of food and beverage industry employees mistakenly assume that all they have to report is 8% of their receipts. They're wrong. Eight percent is 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 *if allowed by*

your state. Not all states allow tip credit, and the percentage allowed varies by state. The tip credit on the overtime rate is the same **dollar amount** (not the same percentage) as on the regular hourly rate.

4. Large food and beverage establishments must record as credit card receipts only those on which there are credit card tips (please see Form 8027 above).
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.
6. Food or beverage establishments where tipping is customary for providing food or beverage may claim a tax credit on employer FICA paid on tip income in excess of minimum wage.

Continued on page 4

Tipped payroll, cont'd from p. 3

□ How do you take the Credit for Employer FICA on tips and how do you calculate it?

Complete Form 8846 as part of your tax return.

The IRS estimates it takes six hours and 13 minutes to calculate the credit. Obviously they weren't using *PayMaster*. We estimate one minute for record keeping. If you're on a calendar fiscal year, that's all the

San Diego, and a *PayMaster* user since 1987, says, "In February 1995, while I was on the phone with Donna Rosen at Computer Aid, she asked if I had gotten a big FICA credit for our income tax return. I didn't know what it was and my accountant hadn't mentioned it to me. So together we ran the *PayMaster* report and to my amazement we had a credit of \$29,926.26. We were so pleased!"

□■

locations. The smaller locations are tracked manually, which isn't bad since they're standard hours for the most part. One of the administrative assistants summarizes the hours, and then they're entered on *PayMaster*'s batch screen. Janine Shultis, who's been on our staff for a couple of years and is great, helps me with payroll."

"I generally enter hours and tips on the batch screen myself. This way I really notice any discrepancies and it's easier for me to review. I process both divisions of 86 departments at the same time, and it takes only about an hour to do."

"We have payroll companies calling us all the time, but we wouldn't think of using an outside service. We save a lot of money by doing it in-house. *PayMaster* makes it great – it breaks out every account so we

time it takes to print the report, shown above. From *PayMaster*'s menu, select REPORTS/OTHER/FICA CREDIT.

To fill out the form, look at the "Total" (tips) column on this report. Enter that column's "Final Total" amount on line 1 of Form 8846. The "Tip credit" total goes on line 2 (Tips not subject to the credit provisions). "Tips in excess of minimum wage" go on Line 3 (Creditable tips). "Credit for FICA" should match your calculated amount on line 4 of Form 8846 (current year credit). [Note: The instructions tell you to reduce your employer FICA income tax deduction by this amount.]

Angela Balistreri, Office Manager of Tio Leo's Mexican Restaurant in

User spotlight on PPS Parking, Inc. continued from p. 6

"We have *PayMaster* set up with California and Arizona as separate divisions and each of our 86 accounts as separate departments. This way, we get great reports for each account. I use them in my monthly financial meeting with the managers. This creates an awareness for them of how they can change the bottom line, and the implications of over- and understaffing. They see the relationship between money coming in and labor cost. The managers love it. They're learning a lot."

"We process payroll semi-monthly and average close to 600 employees. We've got Kronos time clocks at the hotel and hospital

can see what payroll is. It's a great management tool. Plus we'd be spending more time if we contracted it out. If there are any errors, it can be a huge problem."

"Because our business is very seasonal, we hire a lot of college students who usually return each year and there's a lot of turnover, so we end up with about 1,500 W-2s. *PayMaster* is so easy I don't dread year-end. It's easy to make sure everything is accurate. Having everything automated, you just put the W-2 forms in the printer, and push a button. Whereas if we did subcontract it out, I might have some concerns. We've been using *PayMaster* for so long, we know we won't have any problems."

□■

Tax law changes

Effective dates, if known, are noted.

Federal

■ **Electronic Federal Tax Payment System (EFTPS)**

EFTPS is required in the succeeding year if tax deposits in a calendar year were more than \$200,000. The previous threshold was \$50,000. This makes EFTPS voluntary for 91% of the businesses. Voluntary users may revert to the paper coupon deposit method whenever necessary without incurring penalties.

■ **Debt Collection Improvement Act of 1996 (DCIA)**

The IRS just published the final regs for DCIA. It applies only to federal administrative wage garnishments (AWGs), which are debts owed to federal agencies, such as defaulted small business loans or school loans. AWDs are limited to 15% of disposable income unless the employee has two different types of garnishments. Then the limit is 25%.

■ **Court Cases on Tips**

The IRS wins this round. The Federal Circuit Court of Appeals has reversed the decision on the Bubble Room case. The IRS may

assess employer FICA taxes on aggregate unreported tips of a taxpayer's employees without determining that any individual employee under-reported any tips. Please see the table below for other rulings. Additional information is available in past issues of THE BLUE PAGES. If you'd like copies of the articles faxed to you, please let us know.

State child support

MD Withheld support must be remitted within 7 days not including legal holidays, Saturdays, or Sundays.

State minimum wage

DE Effective 5/1/99, state minimum wage increases from \$5.15 per hour to \$5.65. Tip credit remains \$2.13/hour. Effective 10/1/99, minimum wage increases to \$6.15/hour.

State new hire reporting

WV As part of the New Hire Report, employers must now report termination of all employees whether by discharge, layoff, resignation, or voluntary quitting.

State unemployment

VI Taxable wage base for 1999 is \$14,600

WA New unemployment form.

WV Effective 1/1/99, all employee contributions to 401(k) 125 Cafeteria are taxable for unemployment compensation purposes. These wages must be included in gross wages.

State withholding

CO Effective 1/1/00, all state tax withheld must be deducted in whole dollar amounts. If less than 50 cents, round down; 50 cents to 99 cents, round up.

GA Effective 1/1/99, new quarterly withholding reconciliation report Form G-7 required for monthly depositors.

MI Will reduce the income tax rate by .5% over the next 5 years from its current level of 4.4% to a level of 3.9% by 2004. Tax tables are not available as of 6/12/99.

OH Effective 1/1/99, Danville LSD tax rate increases to 2%.

Effective 4/1/99, the Village of Leesburg has established a local income tax rate of .5%.



Court Rulings on Tip Reporting Issues

Blue Pages	Case	Ruling
Mar 1999	Fior D'Italia, Inc.	A federal district court ruled in favor of Fior D'Italia, Inc.
Dec 1998	Bubble Room, Inc.	Federal Circuit Court of Appeals has reversed the decision on the Bubble Room case, now ruling in favor of the IRS.
Sept 1997	Morrison Restaurants, Inc.	Eleventh Circuit Appeals Court ruled in favor of the IRS in the IRS appeal of the Morrison Restaurants decision.
Dec 1996	Bubble Room, Inc.	Court of Federal Claims, a court with nationwide jurisdiction, ruled in favor of Bubble Room, Inc.
June 1996	Morrison Restaurants, Inc.	U.S. District Court in Alabama ruled in favor of Morrison Restaurants, Inc.

Q&A on Tips

- Q. Our company isn't a restaurant, but our employees receive tips. Do they have to report them?
- A. Yes, all employees who make tips, not just those who work in a restaurant, must report tips. This includes parking lot/garage attendants, bellhops, doormen, hair stylists, cab drivers, and club performers.
- Q. We have fewer than 10 tipped employees. Do they have to report their tips?
- A. Yes. Even if you have only one tipped employee, that employee must report tips to you. The only exception is for tipped employees who make less than \$20 per month in tips. Those employees can report their less than \$20 per month in tips when they file their income taxes annually.
- Q. Do we have to allocate tips?
- A. If you are considered a "Large food and beverage establishment" by the IRS, you must allocate tips.
- Q. What's considered "Large"?
- A. If you have normally employed more than 10 employees on a typical business day, you're considered large. (Note: that's 10 employees total, not just tipped employees.)
- Q. How do you calculate this? Pick a day and count your employees?
- A. Sorry, it's not that simple. The IRS has a formula to use. Let us

know if you'd like us to fax you a copy of the formula so you can calculate whether you are considered by the IRS to be a "large" establishment.

- Q. Do we have to file a Form 8027 each year?
- A. If you are considered a "large" food & beverage establishment" by the IRS, you must file Form 8027, Employer's Annual Information Return of Tip Income and Allocated Tips.

The IRS is working on increasing the filings of Form 8027. They analyze state sales tax records, previous Form 8027 filings, and other information to identify establishments who have not filed Form 8027 but should have.

- Q. 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?
- A. 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.

If the "total charged tips" you report on line 1 of Form 8027 are more than the "total tips

reported" on line 4c of that same form, that's a red flag to the IRS—please see page 3 for Form 8027. It asks for Total charge tips and Total tips reported.

Print your *PayMaster* Report 8027. If total charge tips in your payroll records are less than actual charge tips (which you report on Form 8027), 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.

Note 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.

- Q. Do I have to do anything more as long as my employees report 8% of total receipts as tips?
- A. If that's what your employees are actually making in tips, you're fine. However, if they are making more, you'll have a problem if the IRS comes knocking on your door. The law requires employees to report 100% of the tips they receive. Whether it's 4%, 8%, or 20% of their receipts doesn't matter (unless, of course, you have signed a TRDA agreement with the IRS for a minimum percentage to report).



User spotlight

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.

“The last thing I want to do is spend my time on payroll. Using PayMaster allows me the time to focus on other things. It does the job for us. PayMaster contributes to our company’s success.”

Karen Such, Controller
PPS Parking, Inc.

When you think of California, you think of sunshine and blue skies. And cars, lots of cars. And what do you do with your car when you stay at the Newport Beach Marriott, shop at the new South Coast Plaza Center, visit a friend in Hoag Hospital, or take your kids to the Block at Orange entertainment center? Chances are you’ll turn over your car keys to an employee of PPS Parking, Inc. of Irvine, CA.

Operating in California from San Diego to San Francisco, and in Arizona in Phoenix and Scottsdale, PPS Parking has the parking concession for 36 hotels including Marriott, Hyatt, Hilton and Westin hotels, and for 50 other accounts that are shopping malls, hospitals and medical centers, health clubs, office buildings, entertainment centers, and even an auto dealer. Besides valet parking, their 600 employees provide baggage check,

PPS Parking, Inc. (formerly Professional Parking Services, Inc.) is profiled in Tom Peters’s tapes, seminars, and books (“The Pursuit of WOW!” and “Liberation Management”) as a company that “stands out from a mile away.”

shuttle services, doorman/greeter/host services, revenue-control consulting and assistance with obtaining state and local permits and licenses, not just for parking but for all aspects of a new operation.

Stephen Paliska, President and Owner of PPS Parking, started the company in 1982 with his brother

Paul, who is Director of Operations. They both were exposed to the parking industry in college working for a competitor. Karen Such, Controller of PPS Parking, has been with the company almost from the beginning. Karen says “They were in the right time at the right place. The industry was really in its infancy.”

“Our first account was the Newport Beach Marriott, which we still have. I grew up with the company and have had a lot of upward mobility. I’ve gotten to know the business intimately because I’m involved in

Janine Shultis, Karen Such, and Stephen Paliska of PPS Parking, Inc.

all aspects. After starting out in an accounting position, I’m now in more of a management position and have taken on a lot of the financial side. I’m very ‘hands-on’ with all of our clients, managers, and staff to ensure profitability and efficiency on the operational side. I’m also very involved in consulting, where I analyze a company’s operation and make recommendations. Often we end up managing their operations.”

“When I joined the company, we had only two accounts, so payroll was done manually. There was a computer with dust on it – no one knew how to use it. I changed that pretty quickly. In our search for payroll software, we were referred

to Computer Aid and *PayMaster* by a California company, Advanced Analytical. Knowing the growth potential of our company, we knew we needed to manage accounts efficiently. A major reason we selected *PayMaster* is that we are able to get separate reports for each account – the breakout was everything we wanted to see. Other programs weren’t as sophisticated.”

“And tips. Our non-supervisory employees receive and report tips and we needed a payroll program that handled tip reporting easily. Although California does not allow tip credit, Arizona does, so we also needed to correctly calculate overtime on tip credit jobs.”

“Another reason was ease of use. It’s very user-friendly. Support has a lot to do with it, and the annual AutoUpdate. Computer Aid’s staff is very knowledgeable. I’ve dealt with companies

throughout the years and you have to twist someone’s arm to get an answer. As far away as we are from Computer Aid, I always get a call back. Granted, we have very few problems or questions, but when we do, we get the help we need. Donna is great. She’s such a nice lady. Very helpful. Kyle always is too. I’m very impressed with her and her organization ever since we started using *PayMaster*. The last thing I want to do is spend my time on payroll. Using *PayMaster* allows me the time to focus on other things. It does the job for us. *PayMaster* contributes to our company’s success.”

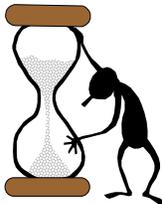
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Is your time clock

Y2K-compliant?

As the century is ticking down toward December 31, 1999, time may be running out for you if your time clock is not Y2K-compliant.

Now is the time to do something about it if it's not. You don't want to be one of those last minute shoppers whether you're looking for Christmas gifts or for Y2K-compliant time clocks. With gifts, you can find last-minute ones. Time clocks? That takes a while longer.



You want to allow time to:

1. Research available time clock software and hardware to find what is best for **your** company.
2. Purchase the time clock and have it delivered.
3. Install the new time clock and its software, along with cable/modem connections, and test it.
4. Enter the information on your employees.
5. Familiarize your employees with the new time clock.

If you're still using a mechanical time clock and it doesn't print the day of the week or the year, you may not have to worry about Y2K.

But, how about all that time it takes to manually add up hours? Think about giving yourself a Christmas present early – a new time clock, which will also give you the gift of many saved hours over the coming years.

Computer Aid has many types of clocks available in all price ranges. We even have software you can install on your PC that turns your PC into a time clock.

Call us today to help you decide on your best solution.

800-327-4AID
(800-327-4243)



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