

Restaurant tips -

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Tourism and Hospitality Industry Partnership

Restaurant tips

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Restaurant tips

1. A customer who dines at a restaurant may give a tip in addition to the payment for the meal. The tip is purely voluntary and is intended for the restaurant employees that provided the service. It may be paid by way of cash or credit card. The restaurant operator passes on the tip to the employees.

Issue

2. Does a tip paid voluntarily form part of the consideration for the supply of restaurant meals by a restaurateur to the customer?

Decision

3. No, a gratuity is not consideration for the supply by the restaurateur provided that the tip is passed on to the employees as intended.

4. Section 9-15 provides that consideration includes any payment, act or forbearance, in connection with, in response to or for the inducement of a supply of anything.

5. For a tip to be consideration for the supply of meals and beverages, it must be in connection with, in response to or for the inducement of the supply. A genuine tip - paid on a purely voluntary basis - is intended to go to the employees who provided the service. The restaurateur passes on the tip to the employees. The tip does not form part of the consideration for the supply of the restaurant meal.

Note 1: An entity must keep records showing that tips have been passed on to employees and not retained as part of the entity's business takings. If a tip is not passed on to the employees, then the tip is consideration for the supply by the restaurateur.

Note 2: If a tip is not paid voluntarily, for example, it is a pre-determined rate or an amount that is otherwise defined as a service charge, public holiday surcharge or similar, then the tip is consideration for the supply by the restaurateur.