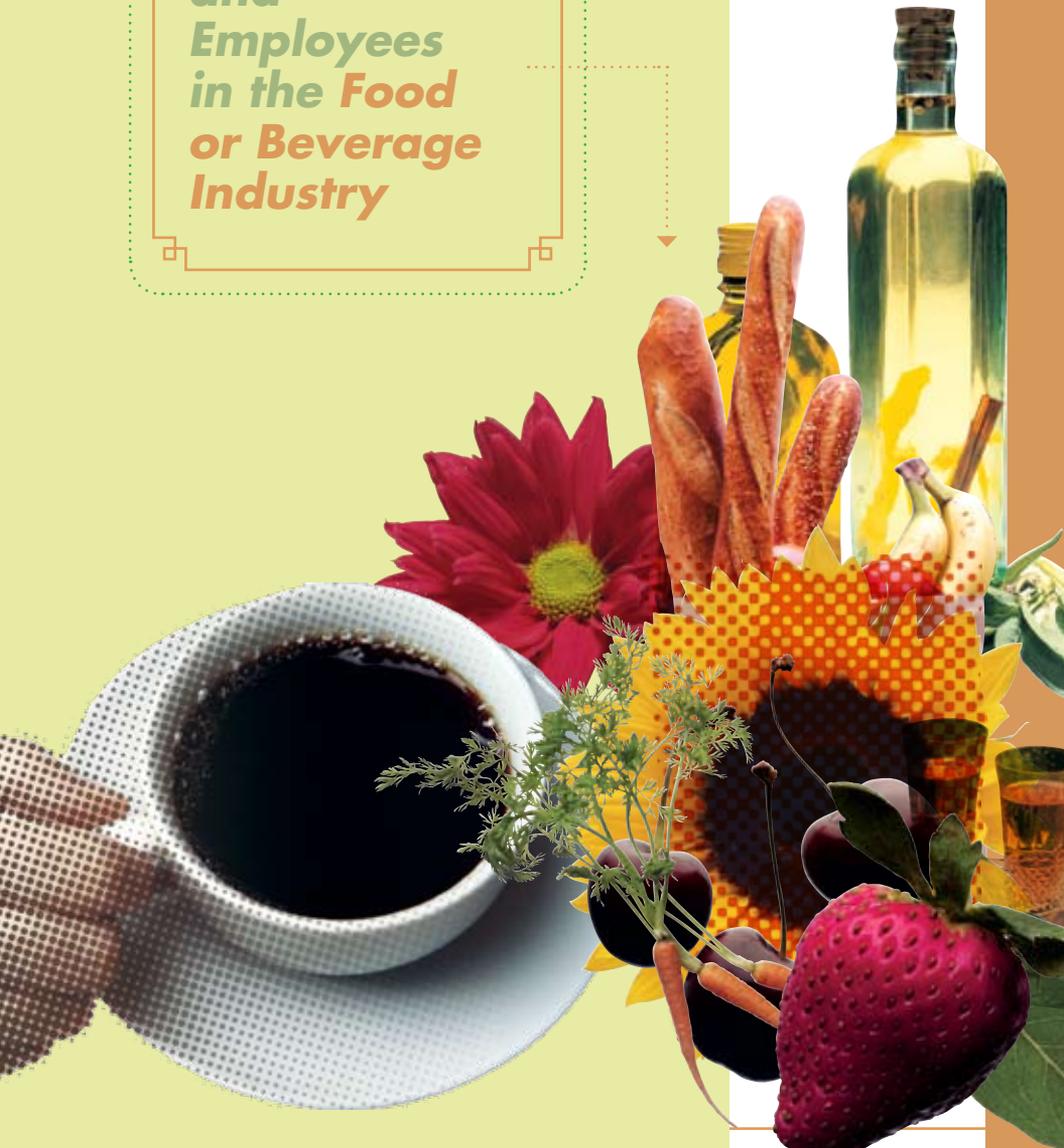


# ATIP

## Attributed Tip Income Program

▶ *For Employers  
and  
Employees  
in the **Food  
or Beverage  
Industry***



## › WHAT IS ATIP?

The Attributed Tip Income Program is a new voluntary tip reporting program for employers and employees in the restaurant industry that promotes tip income reporting and reduces industry record keeping burdens. This brochure provides general information about ATIP. To decide whether ATIP is right for you, you should also review the specific requirements of ATIP that are in Revenue Procedure 2006-30 ([www.irs.gov/businesses/small/article/0,,id=98944,00.html](http://www.irs.gov/businesses/small/article/0,,id=98944,00.html)). The Business & Specialty Tax toll-free number at 1-800-829-4933 is available to answer your questions.

## › HOW DOES ATIP WORK?

ATIP is an alternative tip reporting method. Under ATIP, a formula based on the restaurant's credit card sales determines the amount of tips that must be reported by the restaurant. The employer determines an attribution method for attributing the required amount of tips among all tipped employees; that attribution method should be fairly close to the actual distribution of the tips among employees, including tip-outs and amounts passed along to employees who are not directly tipped. Rather than have individual employees continue to keep records and report their tips to the employer, the employer reports the amounts attributed under the method. The employer attributes tips to employees at least monthly, and the amount attributed to each participating employee is treated as wages for purposes of social security and unemployment taxes and income tax withholding. An example of attributing tips is included at the end of this brochure.

## › WHAT ARE THE BENEFITS OF PARTICIPATING IN ATIP?

ATIP provides participating employers and employees benefits similar to those offered by other tip reporting agreements such as TRAC (Tip Reporting Alternative Commitment) and TRDA (Tip Rate Determination Agreement). Provided all ATIP requirements are met, the IRS will not initiate a tip examination of a participating establishment or of a participating employee. Participating employees are not required to keep a daily tip record or report tips to their employer.

## › ARE ALL ESTABLISHMENTS ELIGIBLE TO PARTICIPATE IN ATIP?

No. Employers participate on an establishment by establishment basis and may operate both participating and nonparticipating establishments. An establishment is eligible for ATIP, if at least 20% of its gross receipts from charged receipts show charged tips and at least 75% of the tipped employees (including indirectly tipped employees) sign an employee participation agreement.



## › HOW DO EMPLOYERS AND EMPLOYEES ELECT TO PARTICIPATE IN ATIP?

Electing to participate in ATIP is simple. Form 8027, Employer's Annual Information Return of Tip Income and Allocated Tips, includes a box that employers check to participate in ATIP. Employers must file all required Forms 8027 according to the Form 8027 instructions, and file timely. When completing the establishment's Form 8027 for the previous year, the employer checks the ATIP box and sends a copy of the completed form for each participating establishment to:

**Internal Revenue Service**  
**Attention: Employment Tax/ATIP Coordinator**  
**201 West River Center Boulevard**  
**Stop 5701-G**  
**Covington, KY 41011**

If an establishment is not required to file a Form 8027 (generally establishments with less than 10 employees), but wants to participate in ATIP, it should complete lines 1 through 5 of the Form 8027, check the ATIP participation box and send the form to the above address. Participation is on a calendar year basis and establishments must satisfy the eligibility requirements and submit a Form 8027 electing participation for each year.

Employees elect to participate by signing a participation agreement with their employer.

## › WHAT DOES THE EMPLOYEE PARTICIPATION AGREEMENT INCLUDE?

The model agreement describes the requirements and benefits of employee participation in ATIP, the employer's attribution method, and it may also be used to provide employees with an estimate of the amount of tips that will be attributed to them under ATIP. Please refer to Revenue Procedure 2006-30 for a Model Employee Participation Agreement.

## › CAN INDIRECTLY TIPPED EMPLOYEES PARTICIPATE IN ATIP?

Yes. In fact, the restaurant must count indirectly tipped employees in determining whether 75% of the establishment's tipped employees are participating employees.

## › ARE ATTRIBUTED TIPS SUBJECT TO TAX?

Yes. ATIP is a tip reporting method and does not change the tax treatment of tips - all tips are includible in income. Tips attributed under ATIP are treated as if the participating employee had reported them to his or her employer. Thus, employers treat attributed tips as "wages" and comply with the applicable requirements to withhold and pay social security and unemployment taxes and withhold income tax on tips attributed to participating employees. Tips attributed to participating employees are reported as wages on the employee's Form W-2, Wage and Tax Statement. Nonparticipating employees are required to report tips to their employers and such tips are subject to applicable taxes.

## › MAY A PARTICIPATING EMPLOYEE REPORT ACTUAL TIPS?

Yes. Under ATIP, a participating employee retains the right to report actual tips. If a participating employee reports an amount of tips that exceeds the attributed tips, the excess is treated as wages subject to applicable taxes. If a participating employee reports an

amount of tips less than the attributed tips, the employer treats that amount reported as wages. When an employee reports less, the employee's participation agreement is revoked and the employee must begin reporting tips to the employer.

## › DOES ATIP REQUIRE ADDITIONAL RECORDKEEPING?

The employer must keep copies of the signed employee participation agreements, the amount of tips attributed and to whom, a copy of Form 8027 used to enroll in ATIP and (if applicable) a copy of the employer's revocation letter. These records should be retained for at least four years.

## › IS THE EMPLOYER REQUIRED TO FURNISH ANY RECORDS TO THE IRS?

Each year, by March 31, the employer must furnish the IRS the following items:

- » a description of the attribution method used
- » a list of every tipped employee's name, address, social security number, date hired, status as directly or indirectly tipped employee, status as a participating or nonparticipating employee, and the amount attributed to each tipped employee
- » the amount reported to each tipped employee as social security tips on Form W-2

## › WHEN MAY AN EMPLOYER START PARTICIPATING IN ATIP?

Employers must begin participating in ATIP at the beginning of the calendar year with the first payroll period ending on or after January 1. Employers electing to participate in ATIP for 2007 begin attributing tips with the first payroll period ending on or after January 1, 2007. Employers electing to participate in ATIP for 2008 will begin attributing tips with the first payroll period ending on or after January 1, 2008. The revenue procedure does not allow employers to begin participating in ATIP in the middle of the year.



## > MAY AN EMPLOYER OR EMPLOYEE STOP PARTICIPATING IN ATIP DURING THE YEAR?

Yes. An employer must notify the IRS in writing that it no longer wants to participate in ATIP. Employees may also elect to revoke their participation in ATIP by providing the employer a signed notice or by reporting tips in an amount less than the amount attributed to the employee. The IRS reserves the right to revoke an employer's participation at any time, but it must give the employer notice in writing.

## > MAY AN EMPLOYER PARTICIPATE IN TRAC AND ATIP AT THE SAME TIME?

No. If an employer elects to participate in ATIP, then any other tip reporting agreement they have with the IRS for that establishment is revoked.

## > CAN EMPLOYERS OR EMPLOYEES LOSE ATIP BENEFITS?

Employers and employees will lose ATIP benefits if they fail to comply with all ATIP requirements found in Rev. Proc. 2006-30. An employer that loses the benefits of ATIP must notify the restaurant's employees that the employer will not be attributing tips and employees must begin reporting their tips to the employer. In addition, if the participating employee chooses to report tips to the employer in an amount less than his or her attributed tips, the employee participation agreement is automatically revoked.

## > OTHER USEFUL INFORMATION

Employers must periodically review the level of employee participation and encourage employee participation to remain at 75% participation. The IRS may conduct compliance reviews to ensure participating employers and employees are meeting their obligations under ATIP.

## > HOW DOES THIS ALL WORK? AN ATTRIBUTED TIP INCOME EXAMPLE:

Restaurant Z has elected to participate in ATIP. It has 5 tipped employees. Employees B, C, D, and E have signed participation agreements and employee F has not.

Restaurant Z's Formula Tip rate for 2007 is 13% calculated as follows using information from its 2006 Form 8027.

Total charged receipts	\$1,000,000
Total charged tips	\$ 150,000

<b>Charged tip rate (\$150,000/\$1,000,000)</b>	<b>15%</b>
Less 2%	(2%)
<b>Formula Tip Rate</b>	<b>13%</b>

Restaurant Z computes the total tip amount at the end of each pay period and attributes tips to tipped employees at the same time. Z uses an attribution method based upon hours worked. In the first payroll period in 2007, each employee worked 80 hours and Z had \$40,000 in gross receipts from food or beverage sales.

### Total Attributed Tip Amount = \$5,200

\$40,000 gross receipts (cash and charge) x 13% (Formula Tip Rate)  
= \$5,200

### Each employee's portion of the Attributable Tips is computed as follows:

Employee hours worked in pay period 1 divided by total hours worked by all employees multiplied by the Attributed Tip Amount.

Employee B	80 hours/400 hours x \$5,200 = \$1,040
Employee C	80 hours/400 hours x \$5,200 = \$1,040
Employee D	80 hours/400 hours x \$5,200 = \$1,040
Employee E	80 hours/400 hours x \$5,200 = \$1,040
Employee F	80 hours/400 hours x \$5,200 = \$1,040
<b>Total Attributed Tips</b>	<b>\$5,200</b>

Z attributes \$1,040 to each tipped employee for the payroll period. Employee F (the non participating employee) has not yet reported any tips. The tips attributed to participating employees, B, C, D, and E are treated as wages for all purposes of the Internal Revenue Code (Code).



**Payroll Period #1 Tipped Wages subject to the withholding, paying, and reporting rules:**

Employee B's tipped wages	.....	\$1,040
Employee C's tipped wages	.....	\$1,040
Employee D's tipped wages	.....	\$1,040
Employee E's tipped wages	.....	\$1,040
Employee F's tipped wages	.....	\$ 0
<i>(Employee F did not report any tips and is nonparticipating)</i>		
<b>Total tipped wages</b>	.....	<b>\$4,160</b>

At year end, Z will report the participating employees' attributed tips as social security tips on Form W-2. Employees B, C, D and E will not be subject to a tip examination for periods they participate in ATIP provided they continue to meet the ATIP requirements.

**> FOR ADDITIONAL INFORMATION**

The IRS provides the following publications and forms relating to tip income reporting. These materials are available for download on the IRS Web site at [www.irs.gov](http://www.irs.gov) and by telephone on the IRS toll-free number 1-800-829-3676 (1-800-829-4059 for TTY/DD equipment access). The Business & Specialty Tax toll-free number at 1-800-829-4933 is also available for questions.

**Revenue Procedure 2006-30 may be viewed or printed at:**  
<http://www.irs.gov/businesses/small/article/0,,id=98944,00.html>

**Form 8027**

*Employer's Annual Information Return of Tip Income and Allocated Tips*

**Form 8027 Instructions**

**Pub 15 - (Circular E) Employer's Tax Guide**

**Pub 531 - Reporting Tip Income**

**Pub 1244 - Employee's Daily Record of Tips and Report to Employer**



**NOTES**

**NOTES**

# ATTIP



Department of the Treasury  
**Internal Revenue Service**

---

[www.irs.gov](http://www.irs.gov)

---

Publication 1461 (Rev. 02-2007)  
Catalog Number 256681

---