



The UK Salon Employees Guide to

Tipping Laws, Tax and Compliance

Introduction

There is new legislation coming into effect in late-2024 regarding the collection and distribution of tips that all salon and spa employees need to be aware of. In this ebook we'll break down what is involved in the new legislation, and the potential tax implications for you.

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Part 1: The Act

What is the Employment (Allocation of Tips) Act ("The Act")?

The Act aims to ensure two important changes for salon workers (like salon, spa or barbering professionals):

1. 100% of tips or service charges left by customers are paid directly to employees (the employer cannot take any deductions for admin or transaction charges for example)
2. The allocation is dealt with fairly and transparently

Does The Act apply to card or cash tips or both?

The Act covers any tips and service charges that are 'employer-received' - i.e. the employer collects the tips and has a hand in allocating and distributing them among employees. Typically this means tips and service charges paid by card - but if the employer also has control over collecting and distributing cash tips (like having a tip jar), then the act will cover these too.

80% of all UK tipping
now happens by
card, not cash.

(According to UK Government statistics)



When will The Act come into effect?

The Act has now completed the parliamentary process and is expected to come into force at some point in 2024, most likely in October.

Who will qualify to get a share of tips?

Both client-facing and non-client-facing employees can receive a share of tips as long as their role is linked to the salon where they were paid. So this covers service providers, apprentices, front-of-house staff and back-of-house staff.

'Agency workers' are not common in salons in the UK, but if you are an agency worker, you are entitled to a share of tips in the same way direct employees are. Given agency workers are entitled to a share of tips, it is also likely that self-employed workers at a salon will also qualify for a fair share of tips, though this is yet unclear in the legislation.

What does 'fairly allocated' mean?

Under The Act, the salon owner must have a transparent and written policy made available to employees on how the salon collects and allocates tips, and employees must be notified of any changes. They may also need a publicly displayed tipping policy for clients.

Now that The Act has been passed, the UK Government is working on a 'Code of Practice', which will provide practical guidance around fair allocation. This is still a work in progress. Typically in a salon, the fair distribution of tips means tips left by a client would go directly to the service provider(s) who carried out the service on that client.

How long does my employer have until tips must be paid into my bank account?

Tips must be allocated and paid to workers no later than the end of the month following the month they were received from the customer. For example, tips received any day in May must be allocated and paid by the end of June.





The salon or spa I work at has more than one location – can/should tips be pooled from all locations before being divided out?

No – all tips paid at a single salon must be allocated to the workers at that salon.

Can my employer say that tips are part of my overall benefits package?

No – it is prohibited under The Act to negotiate with a worker to vary their salary/wage package in return for a share of tips.

Part 2: Policies, Records and Complaints



Policies, Records and Complaints

- The Act stipulates that a written policy must be maintained, which fully explains how tips and service charges are collected, allocated and distributed to workers – and states how the policy meets the terms of the legislation
- Policies may be the responsibility of the business, the troncmaster, or both, depending on how they are collected and distributed
- Full records of tips and service charges collected and distributed must be kept for 3 years
- Workers can ask to see the policy and/or the records and these requests must be met, though there are rules regarding the time passed and number of requests permitted
- Workers must be informed of any changes to a tipping policy
- Salons may also need a publicly displayed tipping policy for clients
- If tips are allocated by the employer, workers can take complaints against the employer to an employment tribunal. Workers cannot take complaints regarding the running of an independent tronc to a tribunal. The employer is expected to challenge the fairness and compliance of a troncmaster, though it is not a requirement of The Act.



Part 3: Compliance Options

Compliance Options

Let's take a look at the options that are available to your employer to ensure they are compliant with The Act, and what tax / cost implications each has for you.

A. Handle tipping distribution via payroll

B. Set up an independent tronc

C. Only accept cash tips

D. Send card tips directly to staff via PhorestTips

First, let's summarise the tax and cost implications of each option:

The below example shows how each option would impact a monthly total of £500 in tips

Paid by client via	Standard card	Standard card	PhorestPay card	Cash
Paid to employee via	Payroll	Tronc scheme	PhorestTips	Cash***
Employer taxes & fees ^	£69	£100**	none	none
National insurance	£69	none	none	one
Tronc scheme fee	none	£100**	none	none
Employee taxes ^	£160	£100	£100	£100
Income tax via PAYE	£100	£100	none	none
Income tax at end of year declaration	none	none	£100	£100
National Insurance	£60	none	none	none
Retained tips	£340	£400	£400	£400

* This example assumes the employee is a basic rate tax payer – i.e. earning between £12,750 and £50,270 per year

**This is an estimate – Tronc scheme fees can vary based on salon size and intricacies of the agreement

***Does not cover tip jar / pooled tips, as these would be considered 'employer-controlled' so fall under the tipping legislation

Option A: Handle tipping distribution via payroll

Pros

- ✓ Allows you to accept both cash and card tips
- ✓ Easier for you to remain tax compliant as tax on tips is taken via PAYE.

Cons

- ✗ You retain less tips – you must pay 12% National Insurance contributions to the HMRC on tips
- ✗ You may be waiting up to 2 months for tips to be paid into your account.



Option B: Pay tips through an external tronc

A little bit of background before we look at the pros and cons of this option.

What are trons and troncmasters?

A tronc is an agreement and process for handling and distributing tips and service charges among salon workers. The tronc is managed by an appointed troncmaster. In some salons, the appointed troncmaster is an employee, though many don't want to take on the additional responsibilities, so external and independent tronc providers can be appointed. The troncmaster is responsible for allocating and distributing tips among staff.

Pros

- ✓ No National Insurance contributions need to be paid on tips
- ✓ Allows you to accept both cash and card tips
- ✓ Easier for you to remain tax compliant as tax on tips is taken via PAYE.



Cons

- ✗ There is an additional cost for the business – the cost of an independent tronc scheme can range from hundreds to thousands of pounds per year depending on the size of the salon business and the intricacies of the agreement. Be aware that your employer cannot recoup this fee from your total tips.
- ✗ You may be waiting up to 2 months for tips to be paid into your account.

Option C: Only accept cash tips



Pros

- ✓ You bypass The Act as it only applies to 'employer-received' tips – cash tips are collected directly by staff
- ✓ No National Insurance contributions need to be paid on cash tips
- ✓ Immediate payment of tips.

Cons

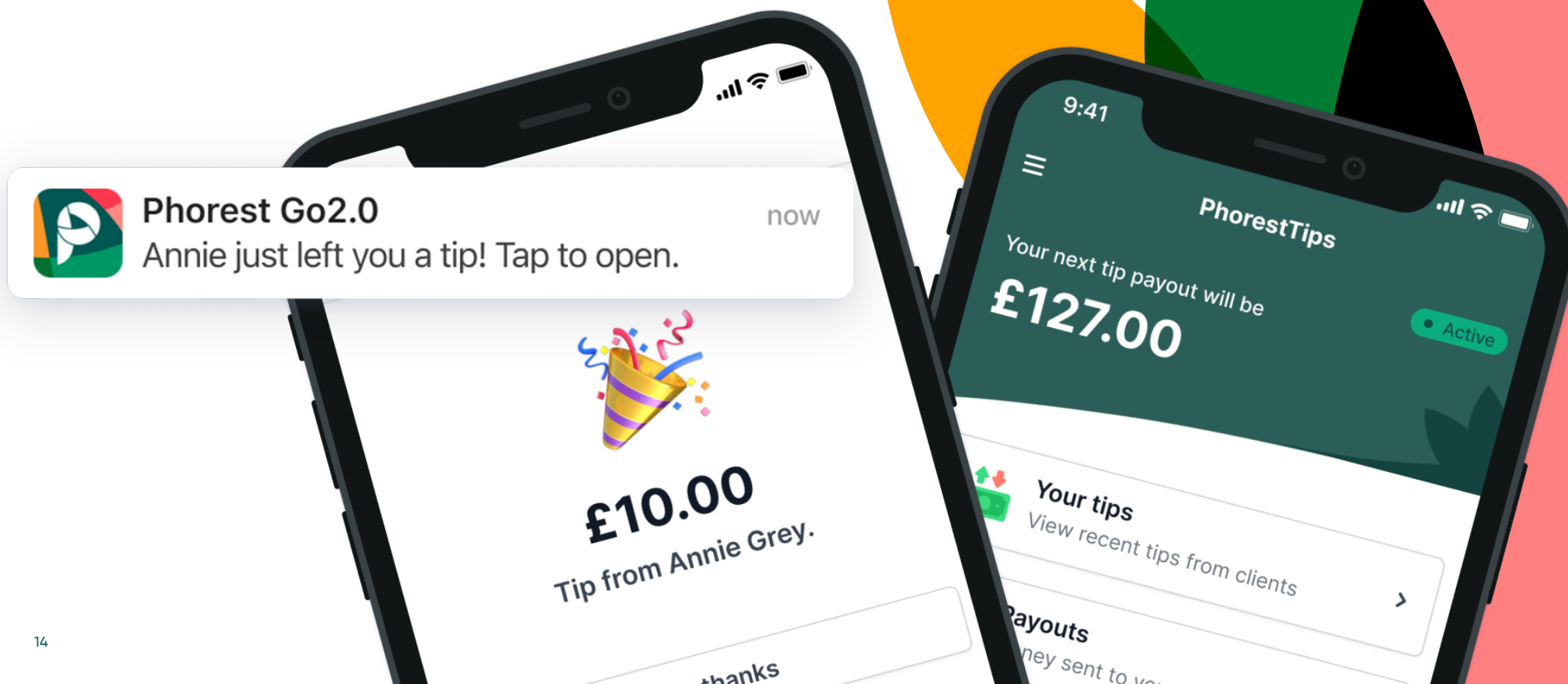
- ✗ You could miss out on 80% of tips (according to UK gov stats, 80% of tipping now happens by card, not cash)
- ✗ Difficult for you to remain tax compliant – you must maintain your own records on tips so you can report tip earnings to the HMRC and pay income tax at the end of the year
- ✗ If cash tips are collected in a tip jar, they will fall under the remit of the legislation (as your employer has a hand in collecting and distributing them) and so will require National Insurance contributions from both you and your employer.

Option D: Send card tips directly to staff via PhorestTips

All pros, no cons!

- ✓ 100% compliant with the tipping laws
- ✓ Take card and cash tips
- ✓ Tips instantly added to your own account
- ✓ No additional taxes or fees

Skip to Part 4 to learn how!



Part 4: Coming Soon: Phorest Tips

With Phorest, you won't need to worry about the new legislation

Phorest is working on a tipping allocation and distribution feature, PhorestTips, that will be ready before The Act comes into effect, and will ensure that salons using Phorest are 100% compliant.

PhorestTips will allow you to accept tips through the PhorestPay Card Terminal, sending your tips directly to your account, without ever being received by your employer. By doing so, these tips are not 'employer-received', thus they are exempt from the provisions of this new legislation.





What does this mean for me?

1. Get your card tips directly & automatically
Tips are fairly and instantly paid to the service provider(s) who worked with the client, without any extra admin time on taxes. No need to wait until your next paycheck!
2. Tax savings = more tips retained
No National Insurance contributions will apply to your tips since they are collected directly by you
3. A seamless personal touch from your clients
A simple, thoughtful way for your clients to show their appreciation
4. You can accurately record your tips to stay tax-compliant
You will be able to see records of your own tips throughout the year so you can report it to the HMRC at the end of the financial year and stay compliant with income tax laws.
5. More tips!
With more and more clients no longer carrying cash, it's no surprise UK gov statistics show that 80% of tips are now paid via card. And Phorest data shows employees receive 25% more tips through our PhorestPay Card Terminals. Now you can accept both cash and card tips, without having to pay additional taxes or fees.

PhorestTips is an ideal tipping solution for salon workers of all kinds, whether you're an employee or a self-employed stylist or therapist at a salon.

What's next?

Sign up for early access

Ask your employer to sign up for early access at the link below, and we will provide more information about how you can ensure you are set up to take advantage of Phorest's tipping distribution feature. Until then, let us take care of it, while you take care of your clients!

Visit salontippingcompliance.co.uk





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