



Phorest

The UK Salon Owners Guide to

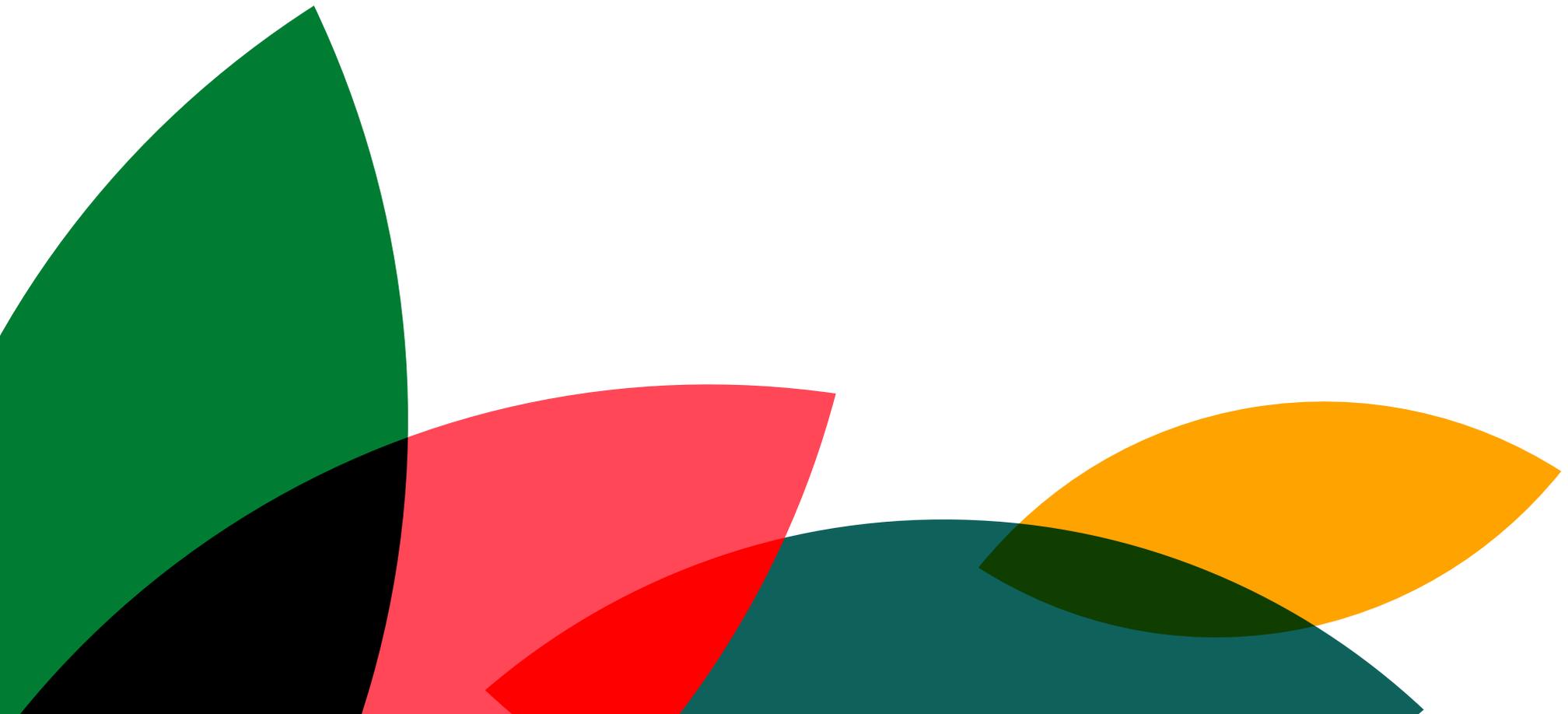
# Tipping Laws, Tax and Compliance

# 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 do employ agency workers, they 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 your salon will also qualify for a fair share of tips, though this is yet unclear in the legislation.

## What does 'fairly allocated' mean?

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.

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. You may also need a publicly displayed tipping policy for clients.

## How long do I have until tips must be paid into workers' bank accounts?

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. For example, tips received any day in May must be allocated and paid by the end of June.





I have more than one salon or spa - 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 tips be included in the employees' 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
- You 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 you to ensure you are compliant with The Act, and what tax / cost implications each has for you and your staff.

**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 £5,000 in tips across your employee base

Paid by client via	Standard card	Standard card	PhorestPay card	Cash
Paid to employee via	Payroll	Tronc scheme	PhorestTips	Cash***
Employer taxes & fees ^	£690	£100**	none	none
National insurance	£690	none	none	none
Tronc scheme fee	none	£100**	none	none
Employee taxes ^	£1,600	£1,000	£1,000	£1,000
Income tax via PAYE	£1,000	£1,000	none	none
Income tax at end of year declaration	none	none	£1,000	£1,000
National Insurance	£600	none	none	none
Retained tips	£3,400	£4,000	£4,000	£4,000

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

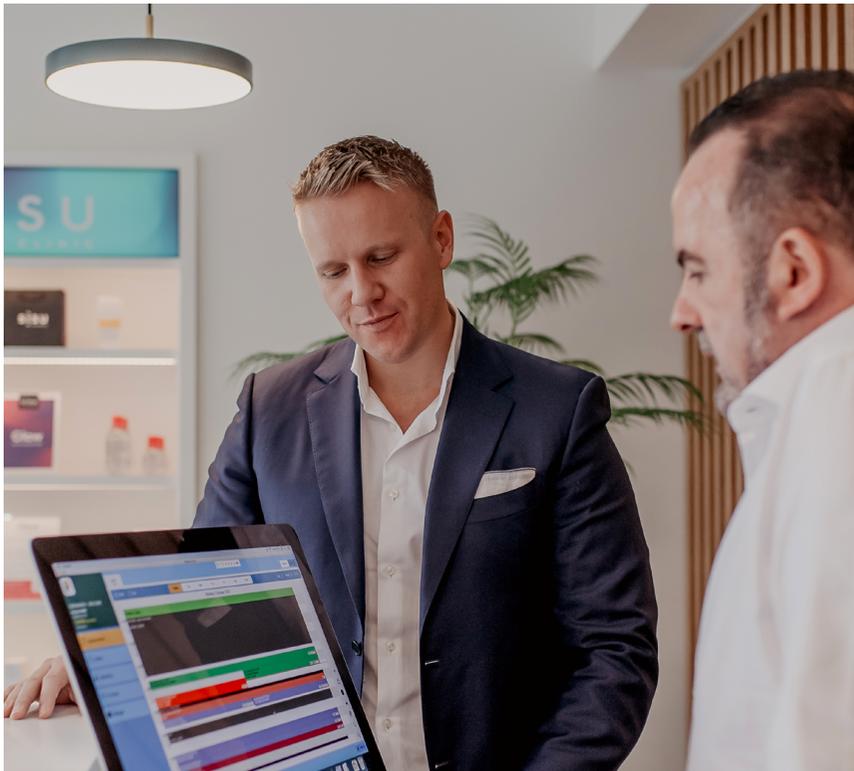
\*\*This is an estimate – Tronc scheme fees can vary based on salon size and intricacies of the agreement

\*\*\*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

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



### Cons

- ✗ An additional cost for your business - you need to pay 13.8% National Insurance contributions to the HMRC on tips and these cannot be covered by your staff
- ✗ An additional cost for your staff - staff must also pay 12% National Insurance contributions to the HMRC on tips
- ✗ You need to maintain a tipping policy document
- ✗ You need to retain full tipping records for 3 years
- ✗ You are liable to be taken to an employment tribunal by employees if they have complaints against how you handle tipping
- ✗ Staff may be waiting up to 2 months for tips to be paid into their accounts.

## 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 tronc 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

- ✓ You're automatically compliant with The Act - it stipulates that if an EXTERNAL, independent and compliant troncmaster is appointed, the employer is deemed compliant with The Act
- ✓ No National Insurance contributions need to be paid on tips by employers or staff
- ✓ Staff can accept both cash and card tips
- ✓ Easier for staff to remain tax compliant as tax on tips is taken via PAYE.

### Cons

- ✗ An additional cost for your business - the cost of an independent tronc scheme can range from hundreds to thousands of pounds per year depending on the size of your salon business and the intricacies of the agreement
- ✗ Appointing an internal troncmaster does not make you automatically compliant with The Act
- ✗ It may require additional integration work with your POS software or card terminal, or else the use of additional QR codes - a headache for your clients
- ✗ You need to work with the tronc to maintain a tipping policy document
- ✗ You need to ensure the tronc provider retains full tipping records for 3 years
- ✗ You have a responsibility to monitor the tronc and step in if deemed unfair or non-compliant
- ✗ Staff may be waiting up to 2 months for tips to be paid into their accounts.

## 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
- ✓ You don't need to maintain tipping policy documents or records
- ✓ No National Insurance contributions need to be paid on cash tips by employers or staff
- ✓ Immediate payment of tips to staff.

### Cons

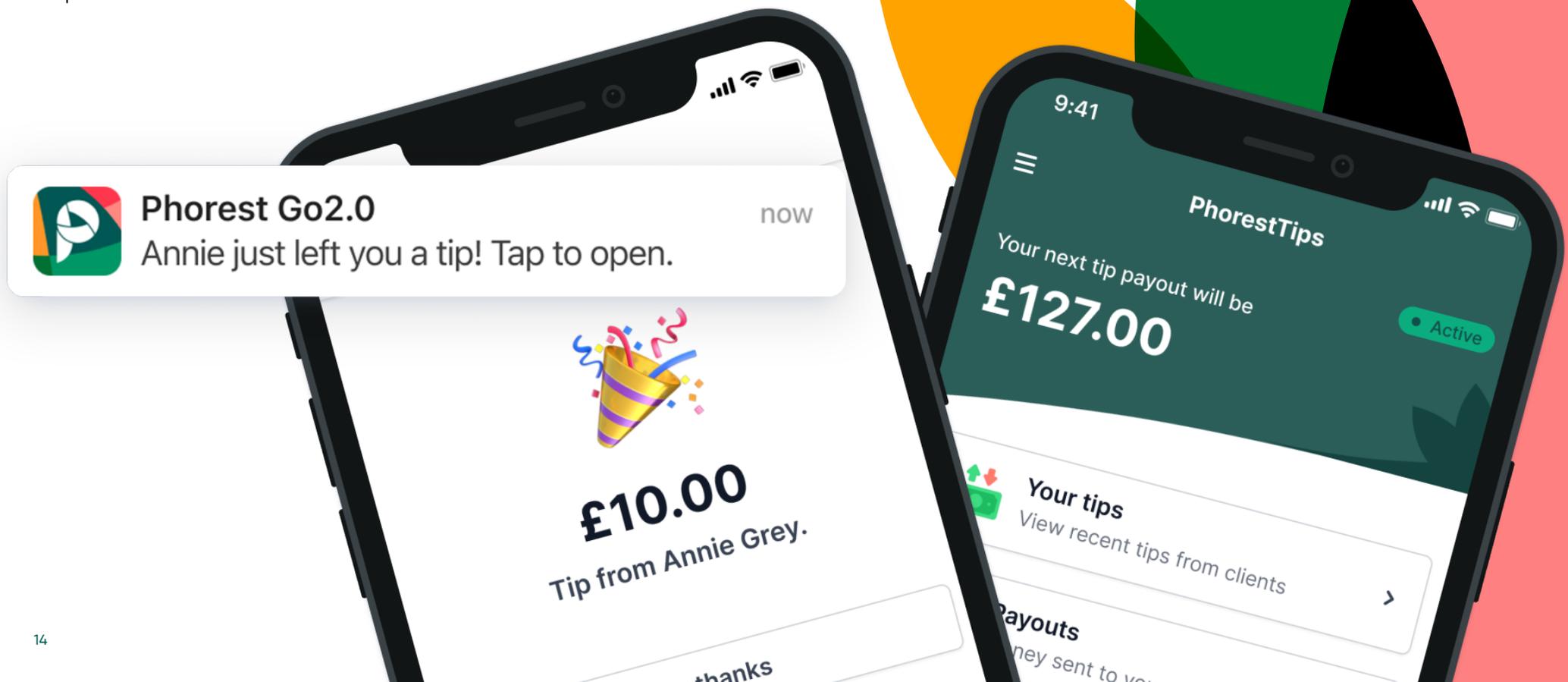
- ✗ Staff miss out on 80% of tips (according to UK gov stats, 80% of tipping now happens by card, not cash)
- ✗ Difficult for staff to remain tax compliant - staff must maintain their own records on tips so they can report tip earnings to the HMRC and pay income tax at the end of the year
- ✗ If cash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

## Option D: Send card tips directly to staff via PhorestTips

All pros, no cons!

- ✓ Remain 100% compliant with the tipping laws
- ✓ Allow employees to take card and cash tips instantly
- ✓ 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 your business is 100% compliant.

PhorestTips will allow your business and staff to accept tips on your PhorestPay Card Terminal without the need to implement a complicated and costly tronc system or worry about National Insurance contributions. Instead, we will automatically send tips directly to your employees accounts, without ever being received by your business. 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 my business and my staff?

1. Transparent distribution of card tips for your employees, instantly & automatically  
100% of the tip is fairly and instantly paid to the relevant service provider(s), without any extra admin time or costs.
2. Tax savings for you and your employees  
No National Insurance contributions or tronc scheme fees apply, since card tips are collected directly by employees
3. 100% compliance with the Employment (Allocation of Tips) Act  
The Act is related to 'employer-received' tips and does not apply to tips that are paid directly to employees without employer intervention.
4. Employees can accurately record tips to stay tax-compliant  
Employees will be able to see records of their own tips throughout the year so they can report it to the HMRC at the end of the financial year and stay compliant with income tax laws.
5. More tips for employees!  
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 your employees can accept both cash and card tips, without having to pay additional taxes or fees.

PhorestTips is an ideal tipping solution for salon teams of all kinds, including those that have self-employed stylists and therapists.

## What's next?

### Sign up for early access

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](https://salontippingcompliance.co.uk)





# PhorestPay

Simple, Secure Payments