



TEXAS TECH UNIVERSITY

Operating Policy and Procedure

OP 69.09: Tip and Gratuity Payments Received by Texas Tech Employees

DATE: May 19, 2020

PURPOSE: The purpose of this Operating Policy/Procedure (OP) is to define policies and procedures applicable to Texas Tech environments where tips and gratuities might be paid to Texas Tech employees.

REVIEW: This OP will be reviewed in December of odd-numbered years by the Assistant Vice President for Human Resources and the Chief Payroll Officer for Payroll & Tax Services with substantive revisions forwarded to the Vice President for Administration & Finance and Chief Financial Officer.

POLICY/PROCEDURE

1. Background

The Internal Revenue Service (IRS) has extensive guidelines and requirements for employer reporting and taxation of tip income received by employees ([Internal Revenue Code Section 3121](#)). Texas Tech has only a few areas where tips are potentially received by employees and has large numbers of employees in areas of food and beverage sales where a tip would be highly unlikely. The receipt of any tip or gratuity imposes substantial recordkeeping requirements on the part of each department potentially involved and on the university as a whole. Failure to account properly for all tip income received could result in IRS mandated allocation of tip income and tax liability to employees who, in fact, never receive such tips, as well as penalties to the university.

2. Policy

With approval from the appropriate senior vice president, vice president, or the Provost and Senior Vice President (PSVP), departments where tipping is customary may elect to allow receipt of tips or gratuities by individuals in the course of performing their job duties for Texas Tech, provided all such tips or gratuities are surrendered by the individuals and retained as departmental income or paid out as wages to these individuals through payroll, in accordance with procedures set forth in this policy. In all other areas, receipt of tips or gratuities shall be prohibited. Should any employee exempt from [the Fair Labor Standards Act](#) receive a tip, it must be surrendered and shall not be paid back as wages.

3. Procedure

- a. Departments operating an area where tips or gratuities might be received shall instruct all employees that all tips and gratuities received must be surrendered to a designated department representative for deposit into an appropriate departmental FOP (fund, org, and program). Any tips paid by credit card shall also be deposited into an appropriate departmental FOP. All tips received shall be treated as departmental revenue and deposited in accordance with [OP](#)

[62.07, Departmental Deposits and Completion of the Departmental Information Sheet \(DDIS\)](#). The department shall be responsible for developing written cash control procedures for appropriately accounting for these receipts. These procedures are subject to audit.

- b. Departments may elect to pay these funds back to the employees as wages by developing a written policy outlining the methodology for distributing the funds among the individuals who received the tips and obtaining written approval from the appropriate senior vice president, vice president, or the PSVP.
 - (1) The department is responsible for communicating this methodology to all individuals receiving wage payment for tips.
 - (2) A copy of this written approval and policy shall be forwarded to Payroll & Tax Services.
 - (3) Payment to the employees will be made by submitting an *Employee One-Time Payment (EOPS)* form using the TIP earnings code for payment on the next on-cycle payroll.
 - (4) The tip wages payment will have the appropriate payroll taxes withheld and will be reported on the employee's Form W-2.
 - (5) The department shall provide funding for employer fringe benefit matching expenses in the local FOP from which tip wages are paid since using state funds to pay tips is prohibited.
- c. Employees who fail to surrender any tips or gratuities received will be subject to corrective action, up to and including termination. The department shall take necessary action to publicize and enforce this policy. Areas impacted include, but are not limited to, restaurants, coffee shops, banquet facilities, bars, either temporary or permanent, snack bars, and mobile refreshment stands.
- d. Departments not approved to permit tipping by patrons shall discourage the payments of tips by prohibiting the placement of tip jars or tip solicitations and may post signs that tipping is prohibited.
- e. Any department that has an identifiable group of employees who might be adversely affected by the decision to prohibit tips may make an offsetting adjustment to the base pay of such employees to compensate them fairly and competitively. Base pay is controlled by the hourly or salaried rate authorized on an *electronic Personnel Action Form (ePAF)*. Such base pay adjustments will require approval from the appropriate senior vice president, vice president, or the PSVP.

4. Right to Change Policy

Texas Tech University reserves the right to interpret, change, modify, amend, or rescind this policy, in whole or in part, at any time without the consent of the employees.