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TIPS ARE CHANGING (from 1 July 2024)

An overview of the change in legislation and how it
impacts your business & staff

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WHAT & WHEN?

The Employment (Allocation of tips) Act was passed in 2023 and the draft Code of Practice has just been released.

Most hospitality businesses will need to amend how they are dealing with tips when the new legislation comes into force on 1 July 2024 - we are yet to see a business which would not require some kind of change!

The following pages contain the main changes you should know about;

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NO DEDUCTIONS FROM TIPS

None. Nothing. Not a sausage. Not an admin charge. Not a processing fee. Certainly not breakages (does anyone still do that?)

Everything that a customer gives as a service charge or a tip must go to employees.

And for those thinking that you can just call service charge something different and dodge this; they've thought of that. If it looks like a tip and smells like a tip, it will be counted as a tip.

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TIPS MUST BE PAID OUT QUICKLY

Tips have to be paid to employees by the end of the month following receipt of the tip. So tips received in June must be paid out before the end of July.

Gone will be the days of holding back some tips for the quiet months, or holding something back for bonuses for exceptional performance.

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TIPS MUST BE SHARED OUT FAIRLY

It will now be the responsibility of the employer to ensure that tips are shared fairly.

But what exactly does this mean?

The (draft) Code of Practice is pretty light on this - but you can use a range of factors to decide what is fair such as seniority, length of service etc.

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ASK WHAT IS FAIR

The (draft) Code of Practice states that employers should consult with workers to seek agreement on the tipping policy.

Now you wouldn't necessarily have an unfair system if you didn't get agreement with workers, but if you find the allocations challenged down the line the lack of employee agreement would be taken into consideration.

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COMPANIES CAN BE TAKEN TO EMPLOYMENT TRIBUNAL FOR NOT SHARING TIPS FAIRLY

The tribunal will be able to compel companies to make payments to employees to correct previous unfair distributions.

You would also expect that a finding against a company in this area would be very damaging from an employee relationship perspective.

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YOU MUST SHOW YOUR WORKINGS

Like maths class at school.

Employees will be entitled to see how their tips have been worked out and the company will need to keep the workings for tips (proving that distribution has been fair) for a period of three years.

In addition you will need to have a clear policy of how tips are shared and this must be available for staff to view. You don't have to share this with customers, although we think lots of companies will.

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TRONCS STILL WORK

And they can help you more than ever.

This legislation does not change the National Insurance benefits to Troncs.

If the company distributes tips via a tronc, the troncmaster is then responsible for keeping the workings for employees and ensuring tips are distributed fairly.

In most cases, the company will discharge its obligation for fair distribution of tips if it is using a tronc (as long as it sends all funds to the tronc and reviews the arrangement regularly).

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START PLANNING

Almost all tronc and tips systems will need at least a small revision before 1 July 2024.

Start planning now and assessing the impact that this is going to have on your business and on your employees. With large NMW increases coming in April you want to make sure you are making changes which move toward this legislation.

We have already been working with businesses on wage banding and tronc modelling to ensure they are compliant with the new legislation. If you would like to discuss your position please get in touch.

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accountants for
hospitality & retail