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4.2.2 Report Tip Income

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Policy Statement

The University of Illinois System complies with Internal Revenue Service (IRS) regulations that stipulate tip income is subject to tax withholding and reporting. If tips are allowed and your unit is a large food service operation (as defined by the IRS), the unit reports the employee's tip income. The unit must provide information to University Payroll and Benefits (UPB) regarding the number of employees and gross receipts. UPB uses this information to file the mandated annual report on tip income with the IRS.

An employee must report tips on their timesheet for any month when:

- They do NOT work in a large food service as defined by the IRS.
- Their tips are \$30 or more for that month.

Procedure

To report employee tip income:

1. Determine whether your operation meets all the "large food service" criteria below:
 - Food or beverage is provided for consumption on the premises.
 - Tipping is a customary practice.
 - More than 10 employees, with combined work of more than 80 hours, were normally employed on a typical business day during the preceding year.

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2. If your operation is a large food service, use the Calculation Worksheet to calculate the 8% of gross receipts that you will add to the employees' pay records. If you need help, contact UPB.
3. If your operation is NOT a large food service, and an employee's tips add up to \$30 a month, he or she must report all tips on their timesheet. To do that the employee:
 - Enters the amount of tips on the timesheet.
 - Chooses the Earn Code TIP, report the hours/unit as 1, and enter the total dollars in the Special Rate field.
 - Payroll adds the amount of tips to the employee's taxable gross income. All applicable withholdings are taken on this total amount.
 - At the end of the calendar year, the total amount of tips reported will be included in Boxes 1 and 16 of the employee's Form W-2.

Forms Used in this Procedure

[Unit Reporting - Calculation Worksheet](#)

Additional Resources

Business and Finance Reporting -

[Form 8027, Employer's Annual Information Return of Tip Income and Allocated Tips](#)

[IRS Publication 1244 Employee Daily Record of Tips and Report to Employer](#)

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