

# Gratuities (tips)

---

Gratuities (tips) received voluntarily are exempt from retailing business and occupation (B&O) tax and retail sales tax. However, when a business adds the gratuity amount to the check, bill, receipt, etc., retailing B&O tax and retail sales tax apply. When the gratuity is not clearly voluntary, it becomes part of the selling price subject to tax.

The business must prove that a gratuity was received voluntarily when gratuities are added to the check, bill, receipt, etc., by the business.

## Gratuity examples

### 'Tip' jars

When customers put money into a 'tip' jar left out by a business, these amounts are clearly voluntary gratuities and exempt from tax.

### Cash payments over the total listed on the check, bill, etc.

When customers leave a cash payment (on the table, in the check holder, etc.) for more than the total amount due on the check, bill, etc., these amounts are clearly voluntary gratuities and exempt from tax.

### Gratuity is a blank amount/line on the check, bill, etc.

When the customer fills in the tip amount on the check or bill, these amounts are clearly voluntary gratuities and exempt from tax.

### Gratuity is added by the business to the check, bill, etc.

The department assumes the gratuity is not clearly voluntary and will be subject to retailing B&O tax and retail sales tax when **one or more** of the following apply:

- The gratuity amount is agreed upon before the service is provided.
- It's stated that a gratuity amount "will be added" on the check, bill, contract, menu, business's website, or other documents, and that amount is then added to the bill or invoice with no clear means for the customer to change the gratuity amount.

**Example:** A restaurant's policy is to add an 18% gratuity to bills for groups of five or more customers. The menu and checks list this policy. The total food bill for a group of five is \$100. The restaurant adds a mandatory tip of 18% to the food bill for a total of \$118. Retailing B&O and retail sales tax apply on \$118.

### **Auto-generated or suggested gratuity added to an electronic check, bill, etc.**

Many restaurants let customers pay through applications (apps) on their customers' mobile devices, or through table kiosks, tablet computers, etc. that are available to customers.

Gratuity will be considered clearly voluntary and exempt from tax if the app or restaurant device does **one** of the following at the time of payment:

- Makes clear that gratuity is voluntary by defaulting to a blank line.
- Makes clear that gratuity is voluntary by displaying gratuity amount as \$0 and customers can freely adjust the amount.

If the opportunity to pay a gratuity differs from these examples, the department will examine the facts and circumstances to determine whether or not the gratuity is clearly voluntary.

### **Reference**

WAC 458-20-124 – Restaurants, cocktail bars, taverns and similar businesses.

.



[Español](#) | [Русский](#) | [한글](#) | [Tiéng Viét](#) | [More languages](#)

[Subscribe to receive notifications](#) | [Taxpayer Rights and Responsibilities](#)

Your Privacy | Accessibility | DOR Staff only | © 2022 Washington State Department of Revenue and its licensors. All rights reserved.