

Troncmaster tax considerations



The Government estimate that there are some 150,000 businesses in the hospitality, leisure and service sectors where tipping is common. These sectors are an important part of our economy, employing some 2M workers. However, concerns have been raised about employers' treatment of these additional payments to workers; and the transparency of such practices to both consumers and workers.

What is a tronc?

A tronc is a special pay arrangement used to distribute tips, gratuities and voluntary service charges given by customers to staff. Tronc derives from the French term "tronc des pauvres" or poor box, which were used to accept donations for the needy.

What is a troncmaster?

A person responsible for arrangements to share tips, gratuities and voluntary service charges given by customers to staff.

What are the benefits of having a troncmaster?

A tronc arrangement can offer significant savings to both employers and their employees through long-standing tax reliefs and exemptions. Troncs can increase your staff's take-home pay at no added cost to your business.

If an employer, business partner or an official of the company (for example, a director) performs the role of being the troncmaster, then payments from the tronc must be made through the employer's payroll with PAYE operated and NICs payable. Furthermore, should the employer be involved directly or indirectly in deciding the distribution of the tronc monies or if a mandatory service charge is distributed through the tronc, the employer is again responsible for operating PAYE and NICs payable. However, payments of tips, gratuities and voluntary service charges through a tronc made by a troncmaster who is not the employer and where the employer has not directly or indirectly determined or influenced the allocation of the tronc monies do not attract NICs. Given that employer and employee NICs total over 25%, this represents a significant saving.

A contractual right to participate in a tronc arrangement or an employer influencing who can participate in a tronc arrangement does not in itself mean payments from the tronc will attract NICs provided the employer does not determine how much each person should receive.

One of the main challenges to any business in the hospitality, leisure and service sectors is to fairly distribute tips, gratuities and voluntary service charges given by customers to staff. Understanding how we can help you to take out the hassle of this compliance task can help your business succeed.

How can we help?

Choosing Buzzacott as your independent troncmaster relieves your staff of the administrative burden of running the tronc. Our troncs safeguard our clients from HMRC challenge, are completely transparent, fully conform with HMRC's requirements, provide exemption from NICs and offer significant savings to employers and staff.

Mark Taylor

Head of Troncmaster Services

T : +44(0)20 7556 1243

E : taylorm@buzzacott.co.uk

Buzzacott LLP

130 Wood Street

London EC2V 6DL

T: +44 (0)20 7556 1200

www.buzzacott.co.uk

Do payments from a tronc count towards national minimum wage pay?

For pay reference periods that started on or after 1 October 2009, payments from a tronc do not count towards national minimum wage pay.

Are troncs challenged by HM Revenue & Customs (HMRC)?

Yes. HMRC carry out reviews of tronc arrangements to ensure everything is in order. In particular, where a tronc is in place and the troncmaster is not the employer, business proprietor or company director, HMRC look for any direct or indirect actions that show the employer has played a part in the allocation of tronc monies. In such case, HMRC would argue that such distributions from the tronc attract NICs and seek a civil settlement including interest and penalties for up to the last six years.