

PKF PERSPECTIVES

ATIP: IRS ANNOUNCES NEW PILOT PROGRAM FOR F&B INDUSTRY TIP REPORTING

In its continuing effort to improve tip reporting under the Tip Rate Determination/Education Program (TRD/EP), the IRS issued formal guidance on a new tip reporting procedure. The Attributed Tip Income Program (ATIP) has been introduced as a pilot program for food and beverage establishments.

Currently, two types of agreements are offered – the Tip Rate Determination Agreement (TRDA) and the Tip Rate Alternative Commitment (TRAC). Both agreements provide certain benefits to both employers and employees. Generally, if employers and employees comply with the provisions of these programs, the IRS will not challenge the amounts reported as tips under audit.

Along Comes ATIP

ATIP offers yet another alternative for tip reporting for food and beverage establishments. ATIP is an annual program that does not require employers to enter into an individual agreement with the IRS and is available on an establishment-by-establishment basis. ATIP also does not require one-on-one meetings with the IRS to determine tip rates or eligibility. ATIP is available for a three-year period beginning January 1, 2007 and ending December 31, 2009. Under audit, an employer participating in ATIP generally will not be challenged by the IRS as to the amount reported as tips.

Eligibility of the Establishment

Participation in the program is voluntary on both the employer's and employee's part. To be eligible, a food and beverage establishment must:

- have at least 20% of its gross receipts as charged receipts that reflect charged tips for the prior calendar year
- have at least 75% of its tipped employees signing an agreement to participate in ATIP
- make a good faith effort to maintain 75% participation during the year of participation
- use the prescribed formula for reporting tips by filing Form 8027 and checking the ATIP box

- report attributed tips on employee W-2 forms and pay taxes using the formula tip rate, i.e. the charged tip rate minus 2 percent which takes into account a lower cash tip rate

An establishment that participates in ATIP that does not meet the 75% employee participation rate as of the pay period ending January 1 of the next year may not participate in ATIP for that year.

Participation in ATIP revokes any prior tip compliance agreements the establishment has with the IRS.

The Tipped Food and Beverage Employee

Food and beverage employees may elect to participate in ATIP by signing an agreement with their participating employer to have their tip income computed under the program and reported as wages.

Some benefits to a participating employee are:

- they will not have to keep daily tip records (although they retain the right to maintain and use independent records)
- the IRS will not initiate a tip examination during the period both the employer and employee participate in ATIP

For further information on ATIP, refer to Revenue Procedure 2006-30, which can be accessed on the IRS website at www.irs.gov.



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