



Tax information for employees earning tips and gratuities

WHAT ARE TIPS AND GRATUITIES?

Controlled tips form part of earnings from employment. The employer is required to make source deductions for Income Tax, Employment Insurance and Canada Pension Plan purposes, which are all included on the T4 prepared by the employer.

Direct tips do not form part of earnings from employment and are not subject to source deductions. However, you can choose to include these earnings for Canada Pension Plan purposes.

In Quebec, there is no distinction between controlled and direct tips, as all tips are considered controlled.

TIP #1	Report your tips and gratuities	The <i>Income Tax Act</i> states that you are required by law to report all income, including tip or gratuity income on your income tax return. Controlled tips must be reported on line 101 of your tax return, and Direct tips must be reported on line 104.
TIP #2	Keep a simple log	Keep a simple log to track the days you work and the direct tips you earn during the year. This will ensure the tips you declare reflect the income you earned and will help you support your claim if assessed by CRA.
TIP #3	Penalties and re-assessments may apply if you do not report these earnings	You may be subject to a re-assessment of your tax return if you do not report earnings received from tips and gratuities. You also may have to pay additional penalties for failing to report the extra income.
TIP #4	Ask your employer to make additional deductions to cover tips	In order to avoid paying a larger tax bill at the end of the year, you may wish to ask your employer to deduct an additional amount from your base pay each pay period. The Canada Revenue Agency (CRA) can help you in determining the appropriate amount.
TIP #5	Pay taxes on an installment basis	The CRA permits you to make quarterly tax installment payments.
TIP #6	No tax penalties if you provide full information on unreported income	The CRA can help you organize your taxation matters. Under the Voluntary Disclosures Program, if you provide complete information on all previous unreported income, the CRA will not assess any penalties on the taxes owing. You will be required to pay the taxes you owe plus interest.

Questions? Visit your nearest Taxation Services Office, or call the CRA free-of-charge at 1-800-959-8281.

Guidelines for employers can be found at Restaurants Canada's Member Portal.