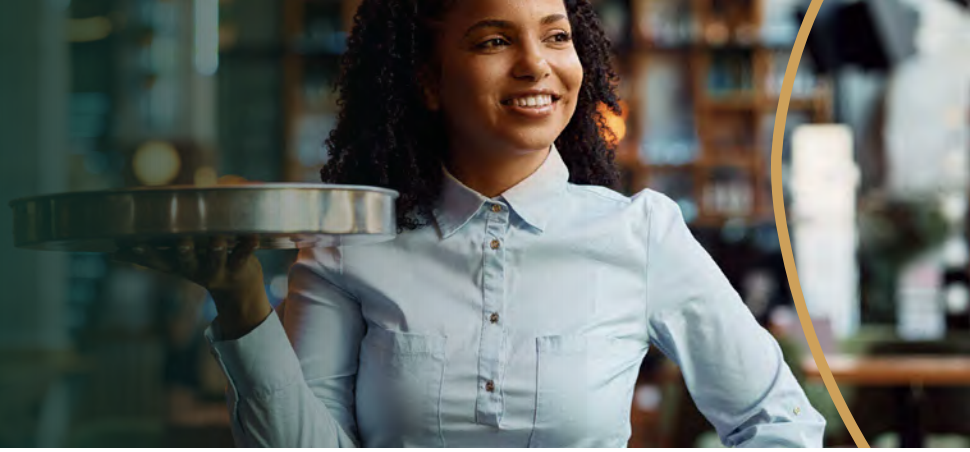
GRATIAPAY

Direct Tips vs Controlled Tips



A SIMPLE GUIDE FOR HOSPITALITY EMPLOYERS AND TEAMS

Understanding how tips are handled matters for payroll, compliance, and employee trust. Here is a practical overview of direct and controlled tips.

Direct tips

Tips paid directly by a customer to an employee, without the employer determining the amount or distribution.

EXAMPLE

A voluntary card tip is paid in full to the employee promptly after their shift without deduction.

COMMON EXAMPLES

- Cash left on a table for a server
- Guest tips a bellhop or porter directly
- Tip recipients decide how a tip pool is shared
- Voluntary card tips paid to tip recipient in full

PAYROLL DEDUCTIONS

- Income tax - **Do not** withhold
- EI - **Do not** withhold
- CPP - **Do not** withhold, your employee can elect to pay CPP contributions on tip amounts related to employment earnings by filling out Form CPT20, Election to Pay Canada Pension Plan Contributions when filing their personal income tax return.

Controlled tips

Tips that an employer controls or possesses, and then pays to employees.

EXAMPLE

A restaurant owner sets the formula for distributing a tip pool among staff.

COMMON EXAMPLES

- Mandatory service charges on bills
- Employer-determined sharing formula
- Tips redistributed by the employer, based on employer formula
- Cash tips paid into employer accounts

PAYROLL DEDUCTIONS

- Income tax - Withhold
- EI premiums - Withhold
- CPP contributions - Withhold

How GratiaPay supports tip distribution

FUNDS ARE HELD IN TRUST
All funds are held in trust.

EMPLOYEE-DIRECTED SHARING
Employees decide how tips are pooled or shared.

BUILT FOR HOSPITALITY
A clearer digital approach to hospitality tip distribution.

Tip classification depends on the specific facts. Funds being held in trust alone does not establish direct-tip treatment. GratiaPay recommends reviewing the following resources from Canada Revenue Agency for more information.

LEARN MORE

- Government of Canada: Tips and gratuities
- CRA: Tips received by employees