

DIGITAL TIPPING

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WHY DIGITAL TIPPING MATTERS

With 83% of payments being cashless, offering digital tipping options is becoming more essential in the hospitality industry. By embracing digital tipping solutions, your property can:

- Improve employee satisfaction and retention
- Meet guest expectations for frictionless payments
- Boost overall tipping revenue by 30% or more
- Increase tip frequency
- Simplify record-keeping and tax reporting
- Reduce the risk of cash handling

IMPORTANT LEGAL FACTS

- Digital tips are subject to the same tax reporting requirements as all other tips and must be distributed to employees by the next regular payday (similar to gratuities left by credit cards)
- Employers must not take or keep any portion of the tips, including any amount to cover processing fees or service costs
- Employers are prohibited from deducting tips from employees' wages
- Employee tips must be distributed fully and not withheld by the employer
- Tip pooling or tip sharing is permitted, provided tips are split fairly and reasonably, and if all legal guidelines are followed
- There is no tip credit permitted toward wages in California
- Employers must clearly disclose any service/convenience fee on the menu or receipt if the service/convenience fee is not being paid to employees; otherwise, it may be considered a gratuity

IMPLEMENTATION TIPS

- Choose a compliant (California and federal) digital tipping platform
- Get staff input on their preference for individual or pooled tips and suggested gratuity amounts
- Develop a clear tip policy
- Have all employees sign and acknowledge the policy
- Unionized employers must review their collective bargaining agreement and comply with any notice and bargaining obligations prior to implementation

Sample policy available at calodging.com

DID YOU KNOW?

- Including employees in tip pools who are not directly involved in the "chain of service" is one of the most frequently challenged aspects of the labor code. Employees like dishwashers, cooks, and other back-of-house staff who do not provide direct service to customers are often included in tip pools but could expose employers to risk if they do not contribute to the service experience.
- A working line-level supervisor may receive tips if they provide direct service to customers and regularly spend most of their time (>50%) performing the same duties as tipped employees. Assisting the service staff by delivering waters to a table or taking orders on occasion is not enough to establish including the supervisor in the tip pool.
- In California, credit card processing fees and digital tipping fees or costs may not be subtracted from the tip and must be paid either by the employer or by the customer.
- Mandatory tip pools can only include direct employees; independent contractors may not participate.