

Fair tips for all

June 2024

New legislation ensures transparency in gratuity distribution.

New rules to ensure fairness and transparency around the handling of tips, gratuities, and service charges for hospitality and other service sector businesses came into force on 1 July 2024. The new rules are designed to create an even-handed approach in situations where the employer controls how tips are distributed.

As of July 2024, a [statutory code of practice](#) provides businesses and staff with guidance on managing tip distribution. This follows the [Employment \(Allocation of Tips\) Act 2023](#), which made it unlawful for employers to withhold tips and service charges from staff.

Employment law partner Karen Cole said:

“This code is the final stage in tightening up the rules around how tips are handled in the workplace. Any employers operating a business where gratuities and tipping occur must adhere to the code and review their policies and practices to ensure they comply with the new rules.”

The 2023 legislation aims to control workplace tipping and prevent employers from making deductions from tips or withholding service charges under the guise of ‘administration’ fees, especially for card payments. Previously, businesses often deducted transaction fees from tips given via card payment before passing the remaining cash to workers. Now, the entire sum must be passed on without deduction.

The [code of practice](#) is intended to facilitate fairness and transparency. Businesses will be required to:

1. Distribute tips to staff by the end of the month following the month in which the customer paid the tip.

2. Have a written policy on the allocation of tips and maintain records of the distribution unless they receive tips only occasionally and exceptionally.

Karen added: *“Employers need to ensure fair distribution among all workers, except the self-employed. This includes permanent staff, directly recruited staff, agency workers, and zero-hours contract workers in the same location. The distribution does not have to be in the same proportion for all workers; for example, front-of-house staff may be treated differently than back-of-house staff. However, it must be fair, reasonable, and clearly set out in a written policy that workers can access.”*

Additionally, businesses should remember that tips cannot count towards the national minimum wage.”

The [National Minimum Wage Regulations](#) apply to any eligible worker, whether paid by the hour or on another basis. Calculations must ensure the equivalent hourly rate meets the required amount. Any gratuities received must be in addition to the national minimum wage.

Act now and ensure your business complies with the new tipping regulations. Contact Karen Cole today for expert advice on updating your tipping policies and practices. Don't wait until the last minute—prepare now to ensure a smooth transition and avoid potential penalties. Call 020 7299 6909 for more information.

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Note: This article is not legal advice; it provides information of general interest about current legal issues.

