



State Board of Equalization

News Release

Chairman Jerome E. Horton

4th District – Los Angeles

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Executive Director
www.boe.ca.gov

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Board of Equalization Adopts Presumption for Nontaxable Tips

Sacramento – At its Culver City Meeting on August 5, 2014, the Board of Equalization adopted a regulation to clarify the way a restaurant reports mandatory and optional tips. The regulation establishes a presumption that restaurants are correctly reporting the taxable mandatory service charges to the BOE when their records are kept consistent with the Internal Revenue Service (IRS) guidelines.

“By the BOE presuming the reporting to BOE is correct when it is consistent with the method of reporting tips and tip-wages to the IRS, that will make it easier for restaurant operators to report their taxable sales to the BOE and to later verify this information if they are audited,” said Chairman Jerome E. Horton.

When a restaurant applies automatic gratuities (tips) to their customers’ checks, such as for large parties, the tip is considered a mandatory part of the sale of the meal and therefore taxable. Conversely, tips that are not mandatory are not subject to sales tax. When the regulation becomes effective on January 1, 2015, the BOE will presume that a restaurant is properly reporting taxable service charges so long as the books and records are consistent with the way the restaurant reports tip and non-tip wages to the IRS.

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Elected in 2010, Chairman Jerome E. Horton is the Fourth District Member of the California State Board of Equalization, representing more than 8.5 million residents in Los Angeles County. He is also the Board of Equalization’s Legislative Committee Chairman. He is the first to serve on the Board of Equalization with over 21 years of experience at the BOE. Horton previously served as an Assembly Member of the California State Assembly from 2000-2006.

The five-member California State Board of Equalization (BOE) is a publicly elected tax board. The BOE collects \$56 billion annually in taxes and fees supporting state and local government services. It hears business tax appeals, acts as the appellate body for franchise and personal income tax appeals, and serves a significant role in the assessment and administration of property taxes. For more information on other taxes and fees in California, visit www.taxes.ca.gov.

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