ZAZEN TAX

Tips, Tronc and the 2024 Rules

What the Employment (Allocation of Tips) Act requires, what it left alone, and the National Insurance a proper tronc keeps for the business and the team.

Eight chapters, one worked tronc, and the records sheet the law expects.

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Contents

The worked figures are The Lantern House's: £1,880 a week of card tips and service charge across a team of twelve. The Tronc and Tips Calculator and the Tronc Records Workbook on zazentax.com run the same numbers.

1 What changed on 1 October 2024

The Employment (Allocation of Tips) Act 2023 came into force with four requirements, and every one of them is checkable by your own staff.

- One hundred per cent of tips reach workers. No admin fees, no breakage deductions, no house share.
- By the end of the month after the month the tip was paid. A June tip is in a pay packet by 31 July.
- A written policy, available to the team, wherever tips are paid more than occasionally.
- Records of every allocation, kept three years, which workers can request.

The enforcement route is the employment tribunal, with awards on top of the tips themselves. Since the records are requestable, the practical auditor is any member of staff with a phone.

2 What counts as a tip

The Act covers tips the employer receives or controls: card tips, service charges on the bill, app-collected gratuities. Cash pressed into a hand and kept is the worker's own, outside the employer's system.

Service charges need one distinction made early. A genuinely discretionary charge, one the customer can strike off, is a tip: outside VAT, inside the Act. A COMPULSORY service charge is part of the price: standard rated for VAT, the business's revenue, and then subject to the Act's fairness rules if passed to staff. The wording on the menu decides, so decide the wording.

3 Fair allocation and the Code

The Act demands fairness; the statutory Code of Practice describes it. Fair does not mean equal, it means a clear basis, applied consistently, that the team can see.

Hours worked, role weightings, a points system: all acceptable when written down and applied without favourites. The demo tronc allocates by hours times a role weight, which the Records Workbook computes so the shares always sum to exactly what came in. Allocating by an independent tronc is itself treated as meeting the fairness duty when the arrangement is fair overall.

4 The tax that never changed

The Act rearranged who gets the money, not what HMRC takes from it. Tips are taxable income, always.

Employer-distributed tips go through payroll with PAYE and both National Insurances. Tronc-distributed tips go through the TRONC's own PAYE scheme, run by the troncmaster: income tax is deducted exactly as before. The difference, and it is the whole subject of the next chapter, is National Insurance.

5 The National Insurance prize

Tips distributed by a genuinely independent tronc are free of BOTH employer and employee National Insurance. Tips the employer allocates are not.

The Lantern House's tips, two ways	A year
Tips through the tronc	£97,760
Employer NIC if the employer allocated	£14,664
Employee NIC out of the team, at 8 per cent	£7,821
Kept out of NIC by the tronc	**£22,485**
Extra in each of twelve pay packets	£652

The condition carrying all that weight: the employer must not decide who gets what. The troncmaster allocates, independently, and higher-rate staff save at 2 per cent rather than 8. The saving is not a scheme; it is fifty-year-old NIC law working as intended, and it fails the moment the independence does.

6 Running a tronc properly

A tronc is three things: an independent troncmaster, a written basis, and a PAYE scheme of its own.

- The troncmaster: commonly a senior team member, never the owner deciding shares. They hold the basis and sign the month.
- The tronc PAYE: HMRC registers a separate scheme; tax comes off through it; no NIC lines appear.
- The records: received, allocated, paid, basis, signature, monthly, reconciling to the penny. The Records Workbook's check cell refuses when they do not.

7 The ways it goes wrong

Every failed tronc fails one of five ways, and four of them are visible in the paperwork before HMRC visits.

- The owner sets the shares: independence gone, NIC due, back years included.
- An admin fee is skimmed: banned outright since October 2024, tribunal territory.
- Distribution drifts past the month-after deadline: a breach with a date stamp on it.
- The service charge is compulsory but treated as a tip: VAT due on all of it, historically.
- No written policy: the cheapest document the Act requires, and the commonest one missing.

8 Setting one up, step by step

A fortnight of admin, then a rhythm. In order:

- Write the policy: what is collected, the basis, when it pays, who the troncmaster is.
- Appoint the troncmaster and minute their independence.
- Register the tronc PAYE scheme with HMRC.
- Open the Records Workbook, load the team, agree the weights.
- Run the first month, reconcile received to allocated, and show the team where their records live.

From then on it is an hour a month, worth £22,485 a year on the demo tips, and it survives an inspection because it was built to be inspected.

Where to go next

Run your own tips through the Tronc and Tips Calculator, download the Tronc Records Workbook, and put the written policy in every onboarding pack with the New Staff Onboarding Checklist.

Every calculator and workbook mentioned in this book is free on zazentax.com, with no email form. They use the same figures, the same conventions and the same worked venue as the chapters here.

Zazen Tax

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