

### **Tips are subject to PAYE**

Employment income is generally taxable unless explicitly exempted by tax legislation. However, some employers and employees may be unaware that tips, being a form of gratitude expressed by satisfied customers or clients, are actually a form of remuneration and are no exception. They are subject to Pay-As-You-Earn (PAYE), which is tax deducted by employers from employees' wages and salaries as they earn them. This may come as a surprise to some; however, keep reading and allow us to help you understand what is taxable. In this article, words importing masculine shall be deemed to include the feminine.

### **Enter PAYE**

As mentioned above, any employment income accruing to an employee is subject to PAYE unless the Income Tax Act (ITA) specifically exempts it. Basically, tips form part of employment income and are taxable under Section 32 of the ITA. In verbatim, the taxing Act specifically states that 'The employment income of any person for any tax year shall include...the value of any other benefit or advantage granted to an employee in respect of his or her employment...' To put this practically, this provision implies that any income or benefit that accrues to an employee as a direct consequence of being employed is considered as taxable remuneration, unless explicitly excluded by the Act. Accordingly, tips, being a monetary benefit typically paid by customers to employees for well-delivered service, clearly fall under 'any other benefit' and thus, are taxable.

### **Let's decipher the myth**

To bring greater clarity, tips constitute employment income because they accrue to the employee by virtue of their employment. Whether paid directly in cash or via card when settling a bill, tips are earned in the course of employment and should be taxed accordingly. While it may seem ambiguous given that tips are paid by customers and not the employer, the fact that they arise from the employee's role within the organization is sufficient to render them taxable under PAYE.

It is often difficult for employers to track tips paid to employees, which is one reason why they are frequently omitted from PAYE calculations. However, this does not absolve businesses from their tax obligations. Employers should begin implementing systems to monitor and tax tips appropriately, as they will be held accountable should the tax authorities investigate.

### **Taxable threshold**

Currently, PAYE applies to employment income exceeding P4,000.00 per month. If an employee's tips alone exceed this threshold, they should be taxed. Alternatively, if tips are combined with other employment income and the total surpasses P4,000.00, PAYE must be calculated on the full amount. Given the difficulty in tracking tips, businesses should adopt measures to record them accurately and ensure compliance.

**Tax hint:** If you have never had a tax audit/review conducted by a tax consultancy firm to check whether you are tax compliant, or should it be apparent that you are not certain that your tax affairs are in good order, then don't wait for the taxman to pounce on you, as that can be very costly. Contact us today so we can help you fix your tax affairs whilst you still have time.

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