

Small business owner? There are things you must know at tax time

(NC) Owning a small business can be a challenging but rewarding experience. One of those challenges is learning how to file your taxes properly.

If you own a restaurant, bar, hair salon or other business where your employees receive tips from customers, it's important to know that you have certain responsibilities with respect to how to treat that tip income. How you handle tips earned by your staff determines whether they are considered ?direct? or ?controlled? and what your obligations are as a business owner.

Controlled tips are tracked and paid by you, the employer. You collect them from customers and control how to pay them out to your employees. For example, you may choose to add an automatic gratuity to a bill, or you may decide to share tips equally among your staff. Controlled tips should also be included as part of your employees' wages, which means that CPP contributions and EI premiums must be deducted at source if the employee is employed in pensionable or insurable employment or both.

In contrast, direct tips are amounts that need to be tracked by the employee, who then declares the income on their tax return. Direct tips go from the customer straight to the employee; for example, cash tips that are handed to the employee by the customer. If your business follows a direct model and a customer includes an amount for a tip when paying their bill by credit or debit card, the tip would be considered to be a direct tip as long as you pay it out promptly and in full to the employee. If you hold those funds, they could be considered controlled and you could become responsible for CPP contributions and EI premiums.

Get more information on how to follow the tipping model of your choice at canada.ca/tips-gratuities-employer.