



SUBJECT: TAX TREATMENT OF TIPS AND GRATUITIES

Your file Votre référence

Our file Notre référence

The Canada Revenue Agency (CRA) would like to remind Canadians who earn tips and gratuities of the rules for reporting this income on their annual income tax returns. Restaurant servers, hairdressers, valets, taxi drivers and others who earn tips may not have all of their income recorded by the employer and therefore not included on their T4 slips. As part of our routine monitoring of compliance with Canada's tax laws, the St. Catharines Tax Services office will focus their efforts in this area, and specifically the reporting of tips and gratuities.

The Canadian tax system is based on voluntary compliance and each individual is responsible for declaring all of his or her income regardless of whether it appears on a T4 slip. To ensure that all Canadians pay their share of taxes, the CRA conducts audits in areas where specified transactions are prevalent. The CRA has access to a number of tools and information to ensure the accuracy of the income reported. This means that your income tax filings could be subject to review.

In order to ensure that business owners and affected employees are aware of their reporting requirements, an information session may be held at your workplace during the coming months. CRA representatives will provide information and answer questions such as, income reporting, unreported cash transactions, audits, income tax reassessments, and penalties.

With the 2007 income tax filing season upon us, we remind you that tips and gratuities are taxable. When people earn tips and do not report them, they are increasing the tax burden on their friends, family, and neighbours who have all of their income reported by their employers on their T4 slips.

In preparing to file your 2007 tax return, you may have to contact your employer to find out if any or all of your tips are included on your T4 slip. Even if you do not get a T4 slip to show your income from tips, you are still required to report all tips received in the course of your work and report the amount on line 104 of your return. It is your responsibility to keep track of all amounts received in the course of your employment.

For more information on this topic and other tax related topics, please visit our website at www.cra.gc.ca.

Thank you,

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