

Introduction

This document provides information on how tips and gratuities are to be treated for purposes of the *Canada Pension Plan* (CPP) and the *Employment Insurance Act* (EIA). In particular, it will address whether or not income from tips and gratuities form part of an employee's pensionable and/or insurable earnings.

Employer responsibilities

All employers are required by law to deduct CPP contributions and employment insurance (EI) premiums from most amounts they pay to their employees. Employers must remit these amounts to the Canada Revenue Agency (CRA) along with their share of CPP contributions and EI premiums. More information on employer responsibilities and obligations can be found through our [Payroll](#) menu page.

Controlled Tips

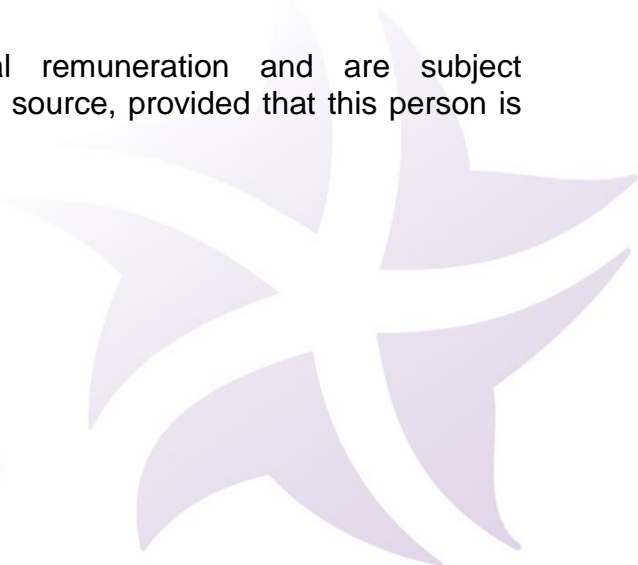
Controlled tips are gratuities that are controlled by the employer. Since they are controlled by the employer, the employer is considered to have paid these amounts to the employee. The following are some examples of controlled tips:

- The employer adds a mandatory service charge to a client's bill to cover tips;
- The employer adds a percentage to a client's bill to cover tips;
- Tips allocated to employees using a tip sharing formula determined by the employer;
- Tips that an employer includes in his business income, later expenses and redistributes to employees in the form of pay;
- Tips that the employees are required to turn over to their employer and are later distributed to the employees;
- Cash tips that are deposited in the employer's bank account and become the property of (or even commingled with the property of) the employer and subsequently paid out to the employees.

We use the term 'controlled tips' within this article to denote the principles of employer control/employer possession over the tips and the employer's obligation to pay the tip to the employee as expressed by the courts.

Controlled tips form part of the employee's total remuneration and are subject to CPP contributions and EI premiums being deducted at source, provided that this person is employed in pensionable and/or insurable employment.

Direct Tips



Direct tips are gratuities that are paid directly by the client to the employee and that are not subject to any of the forms of control by the employer as mentioned above under the heading controlled tips. The following are some examples of direct tips:

- A client leaves money on the table at the end of the meal and the server keeps the whole amount;
- A client gives a tip directly to a bellhop, door person, car attendant, porter; etc.
- Tips pooled and/or shared among employees in a manner determined by the employees (as opposed to the employer);
- When paying the bill by credit card, a client includes an amount for a tip on the credit card and the employer returns the tip amount in cash to the employee;
- When paying the bill by debit card, a client includes an amount for a tip and the employer returns the tip amount in cash to the employee;

We use the term 'direct tips' to denote the principle of when the employer has no control over the tip amount and no control over the tip distribution. Direct tips are considered to have been paid by the client and not the employer. In these situations, the employer is merely a conduit for the tip from the client to the worker.

Direct tips are not subject to CPP contributions and/or EI premiums. However, an employee can elect to make CPP contributions on tip amounts earned in the course of pensionable employment where the tip income is found not to be subject to CPP contributions at source. The individual will complete a form [CPT20](#) to elect to pay the CPP contributions.

It is possible for an employee to receive both controlled and direct tips. In such a situation, only the controlled tips will form part of the employee's pensionable and/or insurable earnings.

- Section 12 [Canada Pension Plan](#)
- Subsection 2(1) [Insurable Earnings & Collection of Premiums Regulations](#)

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