

Restaurants rethinking automatic tip for large parties

By Julie Jargon, Wall Street Journal

An updated tax rule is causing restaurants to rethink the practice of adding automatic tips to the tabs of large parties.

Starting in January, the Internal Revenue Service will begin classifying those automatic gratuities as service charges—which it treats as regular wages, subject to payroll tax withholding—instead of tips, which restaurants leave up to the employees to report as income.

The change would mean more paperwork and added costs for the restaurants—and a potential financial hit for waiters and waitresses who live on their tips but don't always report them fully.

Darden Restaurants Inc., owner of Olive Garden, LongHorn Steakhouse and Red Lobster, has long included automatic 18 percent tips on the bill for parties of eight or more at its more than 2,100 restaurants, but is experimenting with eliminating them because of the IRS ruling, said a spokesman.

The chain in July stopped automatic tips at 100 restaurants in four cities, where it is testing a new system in which the restaurants include three suggested tip amounts, calculating for the customer the total with a 15 percent, 18 percent or 20 percent tip on all bills, regardless of party size. Diners can opt to tip more or less than the suggested amounts, or to not tip. Depending on how patrons react and how well the new software system works, Darden may switch to such suggested tips at all of its restaurants. A spokesman said the company

will decide by year-end.

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