

TAX POLICY ON TIPS IN EU COUNTRIES

The taxation of tips varies significantly across EU countries. Below is a summary of different approaches to taxing tips within the EU.

TIPS - A SIGNIFICANT PORTION OF INCOME

Tips constitute a significant portion of income for workers, especially in the hospitality and food service industries. In Greece, recently, an intense debate was sparked following the government's decision to tax tips, with an exemption of up to €300 per month.



“ Traditionally, tips have been considered part of workers' income, subject to income tax. However, this was often overlooked in practice due to the prevalent use of cash transactions.

With the increasing use of **POS systems**, businesses have faced the challenge of "regularizing" tip payments. Companies collect tips on behalf of employees and are obligated to transfer them. This reliance on interbank transactions has raised questions about these payments' taxation (or exemption).

Without proper regulation, a tax audit could classify tips collected by businesses for employees as business income.

TAXATION OF TIPS ACROSS EU COUNTRIES

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The taxation of tips in the EU varies widely, reflecting different national policies on income and social security contributions.



Bosnia and Herzegovina

Tips may be classified as gifts, with a tax-free threshold of 10,000 BAM (~€5,000) annually. Amounts exceeding this are subject to 13% income tax. Notably, tips are not subject to social security contributions unless processed through the employer.



Spain

Tips are treated as employment income and must be declared in the IRPF tax return. Tips handled directly by employees may avoid social security contributions, while those distributed by the employer are fully subject to such contributions.



Italy

As of January 2023, a reduced 5% tax rate applies to tips in the tourism and hotel sectors, provided tips do not exceed 25% of an employee's income and annual earnings remain below €50,000. This optional regime benefits many workers in the sector.



Croatia

Tips up to €3,360 annually are tax-free. Amounts above this are taxed at 20%, though social security contributions are not required. Tips must also be declared electronically.

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United Kindom

In the UK, tips are subject to income tax at rates corresponding to income levels. Employees are responsible for declaring cash tips. Tips distributed via employers are also subject to National Insurance contributions.



Switzerland

Tips are generally taxable, especially when processed through credit cards. Small cash tips often go undeclared due to their low value.



Hungary

Cash tips are untaxed due to difficulties in tracking them. Tips paid via card are taxable, although service charges distributed to staff benefit from preferential tax rates.



Ireland

Both cash and electronic tips are taxable in Ireland. Electronic tips must be processed through payroll, with the corresponding tax deductions. Service charges added to bills are treated similarly.



Luxembourg

Tips are classified as employment income and must be declared in tax returns, subject to progressive rates from 0% to 42%, depending on total income.

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Germany

Tips given directly by customers are tax-free if provided voluntarily and without legal obligation. This exemption applies whether tips are received directly or shared among colleagues.



Portugal

Portugal imposes a flat 10% tax on tips, which must be declared in tax returns. However, tips are exempt from social security contributions.



Greece

Greece's approach of introducing a tax-free monthly allowance of €300 has potential pitfalls, particularly for seasonal workers in the hospitality industry.

For instance, a seasonal worker receiving €1,500 in tips for July would have only €300 exempted, with the remaining €1,200 taxed according to the applicable income tax scale.



This could discourage seasonal workers from taking jobs in summer destinations in 2025, as net earnings may decrease. Greece is already struggling to find seasonal workers, and the reduced financial incentive through tips could exacerbate the problem.



Poland

General tax rules apply to tips, with a tax-free threshold of 30,000 PLN (~€6,896). Progressive rates apply beyond this amount.





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