



# YOUR STAFF WORK HARD. THEY DESERVE TO BE TREATED FAIRLY.

Discover how an effective tronc scheme can be a win for both you and your employees

By IRIS

**tronc**  
masters

“The word *tronc* originates from the French phrase ‘*tronc des pauvres*’, meaning collection box or poor box. In terms of the hospitality sector, a *tronc* is a name given to an arrangement that exists to pool and share the proceeds of tips and gratuities, paid by customers, in a fair way to staff.”

# If you work in the hospitality sector, troncs should be a vital part of your business operations

Tips, gratuities, and service charges are integral to most hospitality businesses. Historically, the way these have been managed and distributed has varied according to the establishment, and this has worked fine, so many saw little reason to change.

But, 'a perfect storm' of challenges means that handling tips as they have always been done is no longer a sensible option.

## So what has changed?

Increasing pressure from the government for all tips to go to employees, the fall-out from high-profile cases where employees have not been receiving tips, and the acceleration of cashless transactions due to the pandemic have all contributed to a surge in interest in tronc schemes as a way of distributing tips.

Employers are looking for an ethical, fair and cost-effective way of managing their tips, service charges and gratuities. An effectively run tronc scheme ensures that the employees receive the maximum benefit from tips from customers. As a result, the employer is seen to be acting fairly and ethically.

A compliant tronc means that the employee or employer does not pay out National Insurance Contributions (NICs) on allocated tips. This means a higher proportion of the tip amount goes to the employee and not HMRC, plus it reduces costs to you, the employer.





# Why do you need a tronc scheme?

The days of a jar behind the till for tips allocated by the restaurant or bar manager are gone.

Most tips are now added to the bill or given through card payments at the point of purchase. This means that the money for tips now enters the company bank account, and that is where the complexity of distribution starts.

It can be tempting to just add to the payroll. But this is incredibly inefficient as it incurs tax and NI contributions.

A tronc scheme is set up to distribute the proceeds of discretionary tips, gratuities and service charges, including all tips made by pooled cash, cards and service charges added to the bill. Note the word 'discretionary'. Any service charges that are not discretionary, such as

cover charges, are not included. The customer must be informed a service charge is voluntary at the point of ordering; this can be as simple as printing the words 'discretionary service charge' on the menu.

## The difference a tronc scheme makes

In a nutshell, a tronc scheme saves NI payments for both the employee and employer.

Put simply, if an employee were to receive £100 in tips;

- Without a tronc scheme in place, they would receive £66.75 after tax and NI has been deducted, and it would cost you, the employer, £15.05 in NI contributions.
- With a compliant tronc scheme in place, depending on administrative fees, the employee and employer would not pay NI, which would mean the employee receives between £77 and £78, and there is no NI cost to the employer.



## Benefits of tronc schemes

A properly set up and managed tronc scheme saves money and improves employee satisfaction.

There are obvious benefits to a tronc in terms of cost savings and beneficial financial outcomes for staff;

- No National Insurance deductions on the tips mean more of the tip goes to the employee.
- No employer NI charges on tips for the employer reduces operating costs for the business.

As an employer, you can use the cost savings to invest in your business or provide additional employee benefits, as we have seen some of our clients do.

There are also a host of less obvious but no less important benefits of which you should be aware. In a market where staff recruitment and retention is a daily

challenge, having something tangible to prove you are a fair and ethical employer can only be a good thing.

A tronc also ensures that tips are allocated to a set of rules agreed by the tronc members (your employees), so there is no bias or misunderstandings on how their tronc pay has been calculated.

Lastly, a tronc scheme is run by a Troncmaster. This must be someone independent of the business owners or senior team. It also cannot be someone involved in hiring staff such as HR or Managers. They can be an employee, but they can also be someone independent, which helps promote fairness and transparency.

**An estimated £8.3 billion is paid out in tips and charges to UK hospitality staff annually.**

If NI is being paid on these tips, it could equate to £ billions being paid to the Treasury that could be going to employees.

# How does a tronc scheme work?

A tronc is a scheme set up to handle discretionary pooled tips, gratuities and services charges with an agreed set of allocation rules to calculate the amount each employee should receive from the tips pool.

## The basics

A tronc is managed and controlled by an individual called the Troncmaster. This individual must have independence from the decision making of the business. Often they can be an employee, such as the Restaurant Manager, but they cannot be the business owner or Director. If they are a manager, they cannot be someone within the business that has the power to employ staff.

This is a great deal of pressure on an individual, so many businesses choose to use someone external to the company, which is a service we provide at Troncmasters. Having an independent third party ensures absolute independence, and they also have greater experience in setting up and administering tronc schemes.

## What is included in the tronc?

It is up to the business to decide what proportion of the discretionary gratuities paid by customers are included in the tronc. However, increasing government and public opinion pressure is for as much of the tip as possible (ideally 100%) to be made available to the employee. Businesses can keep a small percentage of the gratuities

to cover the costs of processing, such as card charges and fees to external Troncmasters, but this would be transparent and agreed within the rules of the tronc scheme.

## Choosing the right structure

The way your tronc is structured depends on many variables and can be complex - it can seem to be ever-changing. Getting the right advice from the outset is crucial, or your business could risk getting it wrong.

- Who will be the Troncmaster?
- Who decides on the allocation rules?
- Which members of staff will be included as members of the tronc?
- Who will hold the pooled funds?
- How will payments be made – as part of the existing PAYE or as a new PAYE?
- How will the pooled tips be distributed?



## CASE STUDY

### Almond Family Pubs

Almond Family Pubs run four locations in Cheshire and were looking for a way to fairly distribute their tips to staff whilst managing any costs to the business. The business employees 145 staff and generates over £180,000 in tips a year.

Using our Tronc Lite service we helped them to set up the tronc and the yearly savings for both employees and the business has been transformative.



**£22,000**  
savings in  
employees' NI



**100%**  
of tips going to  
employees (Almond  
Pubs are covering  
Troncmaster fees)



Increased **employee  
satisfaction** and  
staff recruitment



**£25,000**  
savings in  
employers' NI



**Employer savings**  
has allowed  
additional money  
to be invested in  
staff benefits

# Discover our tronc services

At Troncmasters, we provide a comprehensive range of tronc services, from consultancy advice to the full management of your tronc and payroll.

We understand that what was once a simple process for handling tips, now seems incredibly complex, but we are here to talk you through the options and help you create a tronc scheme that is right for your business and your employees.

## Tronc Lite

This is our most popular solution where we become the operating Troncmasters in agreement with your employees. We don't need to be running your payroll, we can process calculations and return a payroll-ready report.

Our responsibilities as the Troncmaster:

- Working with your employees to decide the Tronc distribution
- We create the tronc constitution that all Tronc members sign up to
- Working with your team to develop and codify tip-sharing rules

- Agreeing the rules around starts and leavers
- Building a customer policy
- Calculating each employee's share of tips each pay period
- Advising you on what to pay each employee

### Your responsibilities as the employer;

- Advising us of the value of tips, gratuities and voluntary service charges each period
- Letting us know of any starts and leavers each period
- Telling us employee data pertinent to the calculations such as hours worked, departments and seniority
- Paying employees through your normal pay process

### The benefits of Tronc Lite

The main benefit of this 'light touch' solution is that it is low cost, low administration and maximum gain.



This is because we are taking on the Troncmaster role, so fulfilling the HMRC requirements to unlock the NIC savings, but there are none of the additional costs or administrative burdens associated with setting up and running a separate PAYE scheme for the tronc.





## Managed Tronc

Our Managed Tronc service is a scheme registered with HMRC as a separate PAYE for the tronc.

We take on the Troncmaster responsibilities for this service, ensuring compliance and administration of HMRC regulations and ensuring members of the tronc qualify for their NI savings.

With this type of scheme, if the conditions of a tronc are met, but the tronc funds are diverted to a separate Troncmaster bank account, then there becomes an obligation to register the tronc with HMRC as a separate PAYE scheme. The process remains the same as our Tronc Lite service, up to the point of the payroll, where the payment is processed on a separate PAYE scheme with a separate payslip, payment and submission to HMRC from the regular payroll run.

This option also has implications for the employee. They do not automatically receive the benefit of their full personal allowance if their earnings are below the free

pay allowance on their main payroll. Employees would have to apply to HMRC directly to split their tax code or refund overpaid taxes at the end of the tax year through a recalculation. This option has no effect with regards to their personal tax administration.

Our responsibilities as the Troncmaster:

- All as with the Tronc Lite option, then;
- Providing management reporting and processing BACS payments direct to employees (Where BACS is set up)
- Providing payslips, P45s and P60s to employees through our secure ePayslips portal

**Your responsibilities as the employer;**

- Advising us of the value of tips, gratuities and voluntary service charges each period
- Letting us know of any starters and leavers each period
- Telling us employee data pertinent to the calculations such as hours worked, departments and seniority

- Paying employees if you do not have BACS set up for us to make payment on your behalf

### **The benefits of a Manage Tronc**

As with all our tronc options, employees benefit from NI savings.

Employers demonstrate absolute transparency with a Managed Tronc scheme that they do not manage the tronc, and the tronc itself reports separately to HMRC. The Managed Tronc service steps in to provide employer independence and undertake the onerous tasks of managing HMRC compliance, not something an employee (acting as the Troncmaster) is usually willing to do.

The downside to this approach is the cost due to the increasing administration involved.

## Tronc + Payroll

The Tronc + Payroll service provides the most comprehensive solution. We manage all aspects of the tronc, plus we manage your main PAYE scheme payroll on your behalf. So everything is in one place, and we take away the stress of paying staff.

Because we have all your pay data, we have everything we need to process the tronc from this data, and everything is in perfect synch.

Troncmasters is part of the IRIS Software Group and sits within the Dataplan Payroll business. A business that has been providing managed payroll services for over 50 years and has a vast amount of experience in the hospitality sector.

Our responsibilities:

- All as with the Tronc Lite option, then, as part of the payroll service;
- Regular processing of the whole payroll, including starters, leavers, all statutory calculations and permanent and temporary changes

- All auto-enrollment pension compliance, including employee communications and administration with your pension provider
- Submission of all Real Time Information (RTI) files to HMRC
- Pay employees and third parties via BACS
- ePayslips and other pay documentation (P60s, P45s) are accessible to employees through our ePayslips apps

Your responsibilities as the employer;

- Extracting data and submitting it via our secure portal for us to process your payroll.
- Integration with your in-house HR and T&A systems

### The benefits of a Manage Tronc

As with all our tronc schemes, your employees will receive their NI savings and also, you will receive your NI savings (depending on how you choose to set up the tronc scheme). In addition, by outsourcing the whole



payroll and tips work to us, you benefit from our payroll expertise and relieve yourself of the administrative burden surrounding payroll and tips distribution.

Many of our clients have found that the Employer NI savings have more than paid for both the Troncmasters and the payroll processing fees, making it an extremely cost-effective decision.



## Tronc Consultancy

Our team can provide consultancy services with extensive experience in the hospitality sector running payrolls and offering tronc and tax advice.

If you already have an existing scheme in place, we can audit it to ensure it is as effective as possible. Troncs are complex, with many 'grey' areas so getting the input of our Troncmasters is invaluable.

If you plan to run your tronc scheme yourself in-house, we can assist in setting up a new scheme, re-designing a current scheme, or interpreting a scheme that you may have inherited. Consultancy can run as a one-off project or form the first stage of one of our ongoing Troncmaster options.

If you decide to run your tronc internally, you need to be aware that if your internal Troncmaster leaves, you will have to nominate and train a new individual. In contrast, an external third party, such as Troncmasters, has a team of people operating as your Troncmaster.

**80%** of tips are paid via card

Source: Department for Business, Energy & Industrial Strategy

# How can troncs be structured?

The first part of our work with you will be to decide on the best structure for your tronc scheme. There are many ways the rules on the distribution of tips can be structured, and ultimately it will be down to the tronc committee, which will be made up of us as Troncmaster and often representatives from your workforce.

Here are some examples of how it could be structured, but ultimately it will be down to your committee.

## Simple troncs schemes

### Even shares

Although rare in practice, under this method all staff share evenly in any tips, gratuities or voluntary service charges (tips), irrespective of their contracted hours or hours worked.

This has the advantage of smoothing tips to allow for sickness/holidays etc. However, it does favour part-time employees disproportionately, a common issue with the hospitality industry heavily leaning on the GIG economy with high levels of part-time employees.

### Contracted hours

A similar method is to base distribution on the contracted hours for each employee. This solves the part-time employee issue of an even share while still retaining holidays and other absences allocations.

### Actual hours

When looking at even distributions, this is the most common method. Total troncs are divided by total hours worked and then applied to the actual hours worked per individual.

## More complex arrangements

A simple tronc scheme distribution may reflect the actual time input in delivering a service but doesn't necessarily reflect the impact of those individuals on the customer experience generating the tips in the first place.

Where this is the case, you may need to include further modifications. Some of the most common scheme adjustments include:

### Direct tip weighting

Where individuals are tipped directly, we sometimes see troncs designed where a percentage of that directed tip is retained by the individual, with the remainder pooled for allocation to others.

### Departments/Group pooling

Here there are distinct pools within the business, and each pool attracts a different proportion of tips to be distributed. Total tips are divided into smaller pots for distribution to employees.

We most commonly see this with front-of-house/back-of-house pools.

### Seniority

The more senior people attract a larger share of the tronc. This is more common in larger businesses where there are distinct hierarchies to the roles and reflects the senior people's positive impact on the business. Here the senior team may be allocated 50% of the tips, for example, with other role pools receiving a lesser percentage.

### Length of service

Should tronc distribution be skewed based on how long an employee has been there? Sometimes this is built into tronc rules, but you should consider whether someone's length of service impacts the customer experience that generated the tip.

### Tronc points

This structure allocates each scheme member with a points value. Tips are then distributed based on an individual's points as a proportion of total points.

Of course, a mechanism for allocating points needs to be established. This could be entirely at the discretion of the Troncmaster, based on one of the above-described methods or your variation.

## The importance of a Tronc Reserve

A tronc reserve holds back a portion of the distribution of tips to allow for future payment based on circumstances you agree on. For example, a tronc reserve could hold back, say 5% of tips each week to provide a Christmas boost, a top-up if tips fall below a certain level, an exceptional directed distribution, or a general rainy day fund.

We are seeing a rise in the use of reserves in tronc schemes. Their popularity is increasing as a way of smoothing out pay for employees in an industry with peaks and troughs of income due to seasonality.



# Ethical best practice

A good tronc is about fairness. If used well, it helps your reputation and staff perception that you are an ethical and transparent employer. In an industry with so many horror stories about the treatment of employees, it should be part of your armoury when recruiting and retaining staff.

- Boosts take-home pay through NI savings
- Allows you to demonstrate likely tip earnings
- Promotes a positive workplace culture of openness and fairness
- Savings in employer's NI can be used to reinvest in the business or employee benefits

## What makes up an ethical tronc scheme?

- Include all staff where possible
- Employers should maximise the amount of the tip going to the employee
- If an administrative fee is required (such as to a third party), it should be transparent if it comes out of the tronc fund
- Only genuine third party costs should be deducted from the scheme
- The rules of the tronc should be agreed upon by its members, not the employer
- The employer does not direct allocations from a tronc
- Troncs should be set up effectively to ensure PAYE compliance
- National insurance reliefs should be maximised

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**The hospitality sector has 400,000 vacancies, and 42% of people working in hospitality are thinking of leaving the sector.**

Source: KAM Media for Hospitality Rising

# Glossary of terms

## Allocation Records

The records of how gratuities are allocated to members (staff) by the Troncmaster. These records must be maintained for six years in case of HMRC inspection.

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## Cash tips

Cash left on the table or handed to a member of staff by a customer in addition to their bill.

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## Cover charge

A mandatory charge applied to a bill based on the number of guests dining. This is usually a small percentage sum or a fixed 'per head' charge. This is not classed as a gratuity as it is not discretionary.

Cover charges always attract NIC because that payment by the customer is charged by the restaurant in the same way as the cost of the food.

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## Card tips

A sum added by the customer onto their credit or debit card payment of the bill instead of leaving a cash tip.

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## Gratuity

The umbrella term for cash tips, service charges, credit/debit card tips

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## Indirect allocation

A Troncmaster is in place, but the business provides the allocation structure, which the Troncmaster then follows.

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## National Living/Minimum Wage

The statutory minimum hourly rate for workers. Tips cannot be used to make up wages to these levels; they must be in addition to these minimum wage rates.

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## Operator

The organisation such as the restaurant, hotel, bar that is employing the people receiving the tips.

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## Service charge

This is a charge added to the customer's bill before it is presented to them. Although it is added to the bill, it must still be deemed as voluntary or discretionary for it to be classed as a gratuity. This means the customer must be informed of the charge prior to ordering, i.e. by it being printed on the menu.

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## Tronc

An organised arrangement for the collection, pooling, allocation and distribution of gratuities.

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## Tronc members

The members of staff that the Troncmaster has decided will be included within the tronc arrangement and who will receive a proportion of the pooled gratuities.

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## Troncmaster

The person (or persons) responsible for the operation of a tronc. The Troncmaster may be appointed by the business and work for the business, but they cannot be a member of the business's senior management team, directors or owners. They must be independent of the running of the company. For this level of independence, appointing a third party Troncmaster is becoming increasingly popular.

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# A bit more about Dataplan

Troncmasters is part of the IRIS Software Group, which provide software solutions and services for finance, HR and payroll teams. Circa 20% of the UK's workforce is paid by IRIS payroll offerings, with Dataplan Payroll one of the leading outsourced payroll providers with extensive experience in the hospitality sector.

Troncmasters was launched in 2019 by Dataplan in response to the growing interest in troncs as a fair and efficient way of managing the payment of tips to employees. The increase in the proportion of tips paid on cards rather than cash, which has been accelerated during the pandemic and the push for contactless payment methods, has seen companies looking for support on how to set up an ethical, compliant and cost-effective tronc scheme.

Troncmasters provides a range of tronc options from advice and consultancy to fully managing the tronc and your payroll.



We are happy to talk through your options and show you how you could be saving on NI costs for you and your employees through a compliant tronc scheme.

Call **03331 122610**

Visit [troncmasters.co.uk](https://troncmasters.co.uk)

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