



Pennsylvania Compensation Rating Bureau

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Pennsylvania Test Audit Program
Bulletin #4

Adjustment to Minimum Wage/Tips Deemed to be Wages

Under Section 1 Rule V-B3E of the Pennsylvania Workers Compensation Manual Remuneration Excludes:

Tips and other gratuities received by Employees.

Under Section 1 Rule V-B2M of the Pennsylvania Manual Includes:

Adjustments necessary to bring Employees to Minimum Wage.

The application of these Rules were Facilitated by the requirement of the Government to include Tips on Line 7A of the Federal Form 941 and Tips deemed to be Wages on Line 7B. Tips deemed to be Wages were established as an adjustment to Minimum Wage for Social Security Tax purposes.

The 941 Form for 1988 has been revised and the employer is no longer obligated to list Tips deemed to be Wages. Line 7B remains but is used for a different purpose.

We will continue to require the Carriers to include an adjustment to equal the current Minimum Wage of \$3.35.

The following is an example of a format that may be used to develop an adjustment for Tipped Employees receiving \$2.01 per hour to \$3.35 per hour.

1. Determine the average number of full time employees and the normal week hours.
 $35 \text{ Hours} \times \$1.34 (\$3.35 - \$2.01) \times 12 \text{ Waitresses} \times 52 \text{ weeks} = \$29,266.$
2. Determine the average number of part time Waitresses and the normal work week hours.
 $16 \text{ Hours} \times \$1.34 (\$3.35 - \$2.01) \times 7 \text{ Waitresses} \times 52 \text{ weeks} = \$7,804.$

The combination of the above two items should provide a reasonable adjustment to Minimum Wage. This is the Method we anticipate our staff will use. From a Test Audit viewpoint we will accept any reasonable methodology to arrive at an adjustment. For comparison purposes we will not criticize unless adjustment is not shown or the methodology used does not provide a reasonable adjustment.

There can be other examples, such as a doorman, who receives no salary at all and the Auditor will have to set up an adjustment for the full \$3.35 Per Hour.

It should be noted that Line 7A still represents Taxable Tips on the Federal 941 Form and these Tips are to be excluded.

We trust the above information will be of assistance to the Field Auditor.

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Vice President

JHR/jh