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Dec. 15, 2013

When bartender and server Jay Myslewski waits on a large party at The Supper Club in Greensburg, one thing's for sure — he'll go home with a nice tip in his pocket, thanks to the restaurant's policy of charging an automatic 20 percent gratuity to groups of six or more.

The tip comes in the form of cash, and Myslewski is responsible for declaring the money as income on his tax return and reporting it to his employer.

But that will change in January when the Internal Revenue Service begins to enforce rules that classify the money wait staffs receive from automatic tips as regular wages, from which the employer must withhold federal income, Social Security and Medicare taxes. Servers would receive the compensation in their paychecks, not at the end of their shifts.

“We'll just have to put that (gratuity) on their paycheck, rather than give it to them in cash,” operations manager Deb Driggers said.

Although Myslewski of Greensburg doesn't like the new IRS rule, there's “really nothing we can do about it,” he said.

A number of restaurant owners and managers in the region say the IRS decision to enforce the rule will mean little change in their operations, and they will continue levying an automatic service charge on groups — typically 18 or 20 percent.

But others are dropping it.

Downtown Pittsburgh restaurants Sonoma Grille, Seviche, Perle and NOLA will instead suggest gratuities of 15, 18 or 20 percent on large parties, said Nicholas Rizzo,

director of operations for Big Y Group, which operates the chain.

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discuss the matter.

One of the nation's largest chain restaurants, Darden Restaurants Inc., the Florida-based owner of the Olive Garden, Red Lobster, The Capital Grille and LongHorn Steakhouse chains, has eliminated an 18 percent gratuity for tables of eight or more at 100 restaurants. The company will decide by the end of the year whether to follow at all 2,100 restaurants, according to media reports.

Rich Jeffers, a spokesman for Darden Restaurants, could not be reached for comment.

Restaurants must choose

Many in the industry believe the change penalizes wait staff, who rely heavily on nontaxable tips to supplement traditionally low hourly wages paid at many bars and restaurants.

"It affects the poor girls trying to make a (decent) wage," said Dino DeCario, owner of Dino's Sports Lounges on Route 30 in Unity and Greensburg.

Employers who drop the charge may have to pay the wait staff more in hourly wages to compensate for lost tips, if the employee doesn't receive more than \$30 per month in tips. In that case, the business must pay the tipped employee \$7.25 an hour, according to the state Department of Labor and Industry.

The minimum wage for tipped workers in Pennsylvania is \$2.83 an hour, which is 70 cents an hour better than the federal minimum wage of \$2.13 per hour for the same workers. But the average hourly wage for waiters and waitresses, counting tips and wages, is \$9.58 an hour in the seven-county Pittsburgh region, according to the Bureau of Labor Statistics' May 2012 wage estimates. That's about 40 cents less than the national average.

John Graf, director of operations for the Priory Hospitality Group, which has a

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From the perspective of David S. Delisi, a certified public accountant and partner in Delisi, Keenan & Associates P.C. of Greensburg, the IRS enforcement of the rule may actually help the staff that receives tips.

“In my mind, it is a benefit to the employee because they are paying the taxes that are due to the IRS. It's an attempt by the IRS to make sure people report their income,” Delisi said.

Relying on customers

The service charge for large parties is a fair fee, said David A. Kahley, president of The Progress Fund in Greensburg, a community financing agency that recently held its annual meeting for 83 clients and supporters at Chef Dato's Table in Derry Township.

“If you entertain your customers at a fine restaurant ... you expect that (service charge),” Kahley said.

Groups that dine at the Priory will still pay a service charge next year, but Graf, who is president of the Western Chapter of the state's restaurant association, predicted some restaurants will not follow suit. Graf worries that if restaurants drop the service charge, wait staff could collect smaller tips from some customers.

“The server is left at their (customer's) discretion,” Graf said.

Chef Brian Leri at Cafe Monaco believes customers will continue their customary tipping.

“I think we're a little more fortunate here because we have a good clientele and they tip well,” he said.

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