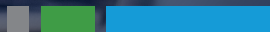


A woman with curly brown hair tied back, wearing a light blue button-down shirt, is seated at a desk in what appears to be a restaurant or office environment. She is looking down at a laptop screen, holding a pen in her right hand and a pair of glasses in her left. The background is softly blurred, showing warm interior lighting and wooden paneling. In the top left corner, there is a decorative graphic of blue squares of varying sizes.

Tipping point – *is your hospitality business at risk?*

NIQ

 **RSM**

Is your business ready for the next phase of compliance?

Since the introduction of the Employment (Allocation of Tips) Act 2023, hospitality businesses have moved quickly to update tipping arrangements, implement tronc structures and introduce formal tipping policies.

Hospitality operators face a new phase of tipping and tronc compliance, where the immediate risk is no longer simply whether arrangements exist, but whether they can withstand challenge from workers, tribunals and regulators.

New NIQ x RSM research provides a snapshot of how hospitality operators are responding to the evolving tipping and tronc compliance landscape. The findings show that, while many respondents have implemented the headline requirements, important gaps remain in how arrangements are applied, governed and evidenced.

About the research

Research was conducted in partnership between NIQ and RSM UK. An initial qualitative discussion forum with Financial Directors from across the industry informed research objectives and was followed by a quantitative survey distributed to a broader group of key decision makers across the sector. Responses were collected via an online survey between the 1st to 19th of July and represent a range of multi-site hospitality business across Great Britain, employing between 75 to 7,500 people.

Survey data HIGHLIGHTS

76% of respondents now operate a professional Troncmaster arrangement.

18% of respondents do not include agency workers in tipping arrangements.

52% distribute tips to at least some roles within their central functions.

58% have no plans to review and update their policies, despite variation in areas including holiday pay, agency workers and employee consultation.

Background

The compliance landscape has evolved significantly. Alongside long-standing PAYE and NIC requirements, operators must now navigate the Employment (Allocation of Tips) Act 2023, which came into effect in October 2024, the 2024 Code of Practice, updates in the Employment Rights Act 2025 and increasing enforcement activity. More recently, a revised Draft Code of Practice (D26CoP) was issued in the summer of 2026.

Against this backdrop, the NIQ x RSM survey explores how hospitality operators are managing the practical realities of tipping and tronc compliance, including governance, distribution methodologies, worker consultation, record keeping, holiday pay and agency workers.

The findings provide a practical view of where the sector has made progress, where inconsistencies remain and where operators may need to strengthen governance and reduce potential exposure.



Compliance has matured, but inconsistency remains across employers

Survey responses suggest that hospitality operators have largely implemented a significant element of the formal tipping arrangements, introduced written policies and are distributing tips within the required timeframe.

However, there are inconsistencies across some of the key areas as interpretation of the legislation, possibly driven by third-party Troncmaster advisors, leading to different treatment of a number of areas.

Tronc arrangements are now firmly embedded across the sector.

76% of respondents use a professional Troncmaster. The remainder operating more traditional models.

On the surface, this paints a reassuring picture. The industry has moved quickly to adapt, and the requirement that customer tips should ultimately be passed to workers is now widely accepted in practice.

However, beneath this broad compliance sits a more complex picture.

While there is widespread agreement on the principle of fair allocation, our survey revealed significant differences in how operators apply that principle.

The greatest areas of divergence relate to:

- Involving staff in the development of tipping policies
- Distributing tips (including to head office and other central functions)
- Holiday pay and staff tips
- Not including agency workers in tipping arrangements
- Reliance on each site to keep records (rather than central record keeping)

These findings suggest the sector is entering a new phase of compliance. For many operators, the challenge is not only about implementing the legislation, but also demonstrating that arrangements are transparent, well-governed and capable of withstanding scrutiny from workers, tribunals and regulators.

A man wearing a white baseball cap, a grey t-shirt, and a dark apron is leaning over a woman. They are both looking at a computer screen. The man has tattoos on his arms. The woman has long dark hair and is wearing a grey sweater. They are in a restaurant or bar setting with blurred lights in the background.

Five emerging risk areas *for hospitality operators*

RISK 1:

How independent is the Troncmaster?

The 2023 Act and the 24CoP are drafted such that they apply to employers who “control” or have “significant influence” over the distribution of tips.

Troncmaster arrangements are now common practice across the sector, with 86% of respondents distributing tips and gratuities through formal agreements, and 80% their service charges.

However, a key question remains: how independent is the arrangement in practice?

The legislation and Code of Practices focus heavily on situations where an employer exercises control or significant influence over tip allocation. Whilst many operators use a Troncmaster specifically to create separation between the employer and the distribution process, there are circumstances where that distinction becomes less clear.

Examples include where changes to contractual pay coincide with increased tronc distributions, or where employers exert significant influence over how an independent Troncmaster designs and operates the distribution methodology.

Few of these arrangements have been tested to date. However, as scrutiny increases, businesses may find themselves needing to demonstrate that independence exists not only on paper but in practice.

The key question is no longer whether a Troncmaster exists, but whether it is genuinely independent.



WHAT THIS MEANS FOR YOU:

Operators should test whether the Troncmaster has genuine decision-making independence, and document how independence is maintained in practice.

RISK 2:

Distribution of tips

One of the most striking findings from the survey is the variation in how operators treat central and head office functions.

52% of respondents said that some central roles (e.g. head office) receive tips. In most cases, these were roles that directly support sites (e.g. booking, facilities management etc.) as opposed to roles such as central finance or HR.

Less than 10% of respondents noted that central finance colleagues receive a share of the tips and only one respondent noted that board members receive a share of the tip.

The Act requires:

- Qualifying tips paid at, or otherwise attributable to, a place of business be allocated fairly between workers at that place of business.
- It also contains specific provisions for non-public places of business, where tips may be allocated between workers at the non-public place and workers at one or more public places business.

The sections relating to non-public place of business go on to say that regard should be given to any Code of Conduct relating to non-public places of business. Arrangements are likely to be viewed as higher risk from both a tax and employment law perspective if challenged.

The 24CoP does not require equal distribution of tips, but employers using different factors should ensure they are clear, objective, fair and reasonable. Additionally, the current draft (D26CoP) does not require tips to be distributed equally.

Although the earlier draft 2026 Code of Practice was withdrawn, D26CoP still provides a clear indication of the Government's direction of travel by focusing on workers who directly contribute to providing the hospitality experience consumed by customers.

As a result, operators should carefully consider whether any allocations to central functions are clearly justified, appropriately documented and capable of withstanding challenge.

RISK 2 cont'd:

Distribution of tips

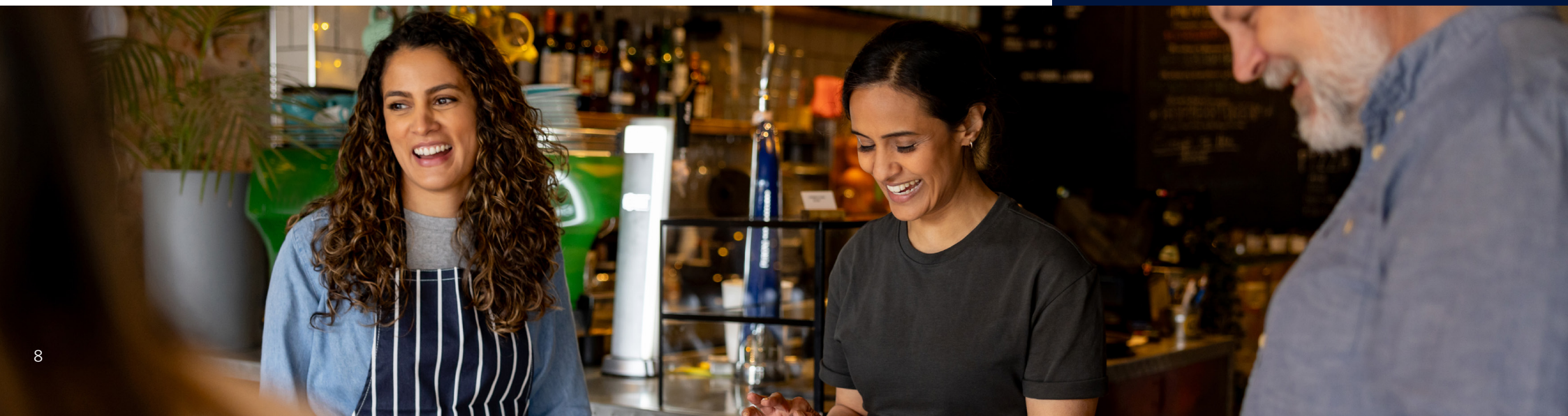
The survey also revealed the use of “first call” or fixed allocations for particular roles, including chefs, back-of-house workers, managers, assistant managers and some central roles.

“First call” distributions may be capable of justification, but are higher risk if they appear arbitrary, favour management, or are not clearly explained and articulated to the broader worker group, particularly as more onus is put on employer transparency.

Particular care is also needed where salary reductions have been made in exchange for a greater share of tips. These arrangements are likely to be viewed as higher risk from both a tax and employment law perspective if challenged.

WHAT THIS MEANS FOR YOU:

Operators should review any central function or “first call” allocations now, ensuring the rationale is objective, documented and clearly communicated to affected workers.



RISK 3:

Holiday pay and staff tips remain a compliance challenge

Holiday pay continues to be an area of uncertainty across the sector due to ongoing tribunal cases.

74% of respondents do not currently include an average payment in respect of tips when workers take annual leave. Instead, some operators hold back amounts from the tips or gratuities fund and pay those amounts when staff are on leave – i.e. pay holiday with the cost being self-funded from the tips fund (not an employer cost).

The tipping legislation focuses on fair allocation, payment timing, policies and records; it does not provide a complete answer on holiday pay treatment. However, this is becoming a live compliance issue for operators. A recent Employment Tribunal decision found that tronc payments should be included within holiday pay calculations where they form part of a worker's normal remuneration.

Although this decision does not establish a binding precedent, it highlights a growing area of risk for operators:

- If tips or service charges are regular and closely linked to the worker's duties, excluding them from holiday pay may create a risk;
- Additionally, if holiday pay is funded by retaining amounts from the tronc or tips pool, operators should consider whether that approach is consistent with the requirement to pass on qualifying tips without unauthorised deductions and within statutory time limits (i.e. by the end of the pay period after it is collected).

As with other compliance challenges, the degree of separation between employer and Troncmaster may become a significant factor in future disputes.



WHAT THIS MEANS FOR YOU:

Operators should assess whether regular tronc payments form part of normal remuneration and whether any holiday pay approach creates deduction, timing or worker challenge risk.

RISK 4:

Agency workers remain overlooked

Agency workers are one of the most immediate and actionable exposures identified by the survey. The Act explicitly brings eligible agency workers within scope, yet almost **one in five respondents (18%)** indicated that agency workers are not currently included within their tipping arrangements.

Where eligible agency staff work at the operator's place of business, the tipping provisions apply in the same way as for those directly employed for the purposes of tip allocation. The Act also sets out the mechanics for payment via the agency and places restrictions on unauthorised deductions.

Operators should ensure agency contracts, onboarding materials and tipping policies explain eligibility, payment routes and timing. Third-party Troncmasters should also review whether current arrangements properly account for agency workers, because administrative complexity will not remove the underlying compliance obligation.

WHAT THIS MEANS FOR YOU:

Operators using agency labour should check immediately whether eligible agency workers are included in tronc arrangements and whether the payment route is documented.



RISK 5:

Governance, records and consultation are becoming increasingly important

Perhaps the clearest message emerging from both the survey and wider regulatory developments is that governance matters.

The legislation requires employers to maintain records showing how tips have been allocated and to retain those records for three years. Workers also have rights to request access to certain information.

Survey responses revealed a variety of approaches, ranging from highly centralised systems through to arrangements largely reliant on individual sites or third-party Troncmasters.

Centralised record keeping is not necessarily problematic if it can produce reliable data, split by location and worker. However, reliance on a Troncmaster may be insufficient if the employer cannot access the information needed to meet statutory duties. At the same time, consultation requirements are becoming more formal.

The existing 24CoP says employers should consult with workers to seek broad agreement that the system of allocating tips is fair, reasonable and clear. It also says the factors used to allocate tips must be stated in the tipping policy shared with workers.

Changes introduced through the Employment Rights Act 2025 increase expectations around consultation with employee representatives and regular policy reviews.



RISK 5 cont'd:

Governance, records and consultation are becoming increasingly important

When drawing up tipping policies, employers will have to consult with recognised trade unions or other representatives (or directly with employees if absent). Tipping policies will require review every three years, necessitating further consultation, and provide an anonymised summary of feedback to all affected workers. It also states that tribunal enforcement will be available where consultation obligations are not met.

The survey responses indicate that many businesses may need to move quickly from informal engagement to a structured consultation process.

All respondents reported having a written policy, a significant number (58%) reported having no formal review date for their tipping policy at this time.

Almost three quarters of respondents noted that staff do not vote or make other representations on how tips are distributed, and staff council involvement appears mixed rather than universal.

Policies that were adequate in 2024 may not be fit for purpose for 2026 and beyond.



WHAT THIS MEANS FOR YOU:

Operators should be able to evidence who was consulted, what feedback was received, how it was considered, where records are held, and when the policy will next be reviewed.

Compliance is moving beyond implementation

The hospitality sector has made significant progress since the introduction of the tipping legislation, but the survey highlights continued inconsistency across organisations and worker groups. Some arrangements may still be open to challenge, particularly where fairness, transparency or governance are difficult to demonstrate. The new draft Code of Practice (D26CoP) reinforces the broader direction of travel.

For operators, the priority now should be to test whether their current arrangements would withstand scrutiny, not simply whether they meet the headline requirements. This means taking a structured look at the five key risk areas identified in our survey, challenging whether policies work in practice, and ensuring decisions are independently supported and robustly documented.



The key question for operators is simple:

if your tipping and tronc arrangements were challenged tomorrow, could you clearly demonstrate why they are fair, transparent and independently determined? If the answer is unclear, now is the time to review the arrangements before scrutiny increases.

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