

City of Colorado Springs

Tax Guide

Tips, Gratuities, And Service Charges

Tips or gratuities offered voluntarily by customers, typically in connection with the purchase of food or beverage, are not subject to city sales tax if they are left solely for the benefit of the service providers. No portion of the tip may be retained by or for the profit of the business in order for this to apply.

Mandatory tips, or those automatically applied to the bill by the business, are subject to city sales taxes **unless** the two following conditions are **both** met:

- A. Mandatory tips, gratuities, or service charges must be separately stated on the bill, and;
- B. Mandatory tips, gratuities, or service-related charges must be distributed in their entirety to the service providers. If any portion of the tip, gratuity, or service charge is retained by the business, or is distributed to employees as wages, or is used to compensate persons other than the service provider(s), the entire tip or service charge is taxable.

CS CODE SECTION

2.7.201, 2.7.438

Related Tax Guides

Food and Drink

This guide provides an overview of specific subject matter and is not intended to be substituted for the full text within the City of Colorado Springs Tax Code.

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Question? email us at:
salestax@coloradosprings.gov

Common Examples

1. An individual goes out to a restaurant for dinner and leaves a cash tip for the waiter. The cash tip is not subject to city sales tax.
2. Nine co-workers go to a luncheon at a restaurant. The restaurant, as is its practice for parties of six or more, adds a 15% gratuity to the bill. If the waiters or waitresses have the gratuity directly distributed to them, it is not subject to city sales tax.
3. A company holds its annual banquet at a local hotel. The hotel imposes a mandatory 16% service charge on banquets. The compulsory service charge appears on the menu and the customers' bill. The hotel keeps 2% of the 16% service charge and distributes the rest to the waiting staff who rendered the service. The mandatory 16% gratuity is taxable in its entirety.