

**ALABAMA DEPARTMENT OF REVENUE - SALES AND USE TAX RULES**  
**Code of Alabama 1975, Sections 40-23-31 and 40-23-83**

**810-6-1-.75. Gratuities and Tips.**

(1) The terms "gratuity" and "tip" as used in this rule shall mean a monetary amount paid by a customer in a bar, restaurant, or similar establishment usually in return for or in anticipation of some service. While a gratuity or tip is generally thought of as a voluntary monetary gift, in practice some retailers add a mandatory gratuity to the customer's bill.

(2) Sales tax does not apply to voluntary gratuities or tips, whether in cash or otherwise added by the customer to the bill, when given directly to the retailer's employee by the customer or given to the retailer who receives no benefit from the gratuity or tip and merely acts as a conduit to channel the gratuity or tip in total to the retailer's employee.

(3) Sales tax applies to mandatory charges designated as gratuities, minimum service charges, or other minimum charges billed to customers by retailers, whether listed separately on the customer's bill or included as part of the selling price of the food, meal, or drinks, when the retailer receives a benefit from the added charges such as using all or a portion of the mandatory charges to supplement the wages or salaries of the retailer's employees. (State v. International Trade Club, Inc., 351 So. 2d 895 (Ala. Civ. App. 1977)) (Sections 40-23-1(a)(6) and 40-23-1(a)(8), Code of Alabama 1975)

(4) A mandatory charge designated as a gratuity, minimum service charge, or other minimum charge is not taxable when the retailer collects the charge from the customer in lieu of voluntary gratuities or tips and merely acts as a conduit to channel the charge in total to his or her employees. Added charges of this nature are simply substitutes for cash tips and the retailer receives no benefit from the charge. (State v. International Trade Club, Inc., 351 So. 2d 895 (Ala. Civ. App. 1977)) (Adopted November 3, 1980, readopted through APA October 1, 1982, amended January 10, 1985, amended October 20, 1998)