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Restaurant Payroll: The Complete Guide for Operators

Restaurant payroll is about a lot more than cutting paychecks. It means tracking hours across roles, recording every tip, calculating tipped overtime the right way, and filing taxes on time — all for a team of servers, line cooks, bartenders, and managers who might each get paid differently.

The busier your restaurant gets, the more there is to keep track of. That's why [Toast Payroll & Team Management](#) is designed to seamlessly sync hours and tips directly from [Toast POS](#) into payroll.

This guide breaks down how restaurant payroll works, starting with the most restaurant-specific part: paying tipped employees.

You'll learn how [tip credits](#) and [tipped overtime](#) work (with worked examples), the paperwork and pay schedules you'll need to get set up, which payroll taxes and forms apply, how long to keep records, and what to look for in restaurant payroll software.

Note: This guide is for educational purposes only and does not constitute legal advice. Restaurant owners and managers should consult with legal counsel and/or a qualified payroll professional for specific advice and support. For payroll and payroll tax-related advice, consult an accountant or contact the Internal Revenue Service (IRS) directly.

Key takeaways

- **Restaurant payroll** is the process of paying a restaurant team: calculating wages and tips, withholding taxes, and paying employees accurately and on time.
- **Tip credits** let employers pay tipped employees a cash wage as low as \$2.13 an hour [under federal law](#), as long as tips bring them up to the \$7.25 minimum wage. If tips fall short in a workweek, the employer pays the difference.
- **Tipped overtime** is calculated from the full minimum wage, not the cash wage. Under [federal law](#), when an employer takes the full tip credit, that's \$5.76 in cash wages for every overtime hour.

- **Payroll taxes** apply to both wages and reported tips. Employers withhold income tax and [FICA](#) from employees' pay, then pay their own share of FICA plus unemployment taxes.
- **Payroll records** need to be kept for at least three years under [federal labor law](#), and employment tax records for at least four years under [IRS rules](#).

Resource

Restaurant Labor Cost Calculator

Want to know what share of your sales go to labor? Skip the math and let the formulas do the work. Just plug in your numbers and track your total labor cost against revenue and operating costs — all in one simple spreadsheet.

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What is restaurant payroll?

Restaurant payroll is the process restaurants use to pay their teams. It covers calculating wages and tips, withholding taxes, managing deductions, and making sure every employee is paid accurately and on time.

It's the same process most businesses follow, but payroll for restaurants comes with a few unique considerations: tipped employees, tip credits, and team members who work more than one job (at more than one pay rate).

We'll dig into each one later in this guide, but here are the key components of restaurant payroll.

Wages and salaries

Your restaurant team gets paid in one of two ways:

Hourly wages: Most restaurant employees (like servers, line cooks, dishwashers, and hosts) are paid for every hour they work. Their pay changes each pay period depending on how many hours they put in.

Salaries: Some roles (like a general manager or executive chef) earn a fixed annual amount. That salary is split evenly across pay periods, so their paycheck stays the same, no matter how busy the week was.

Either way, payroll starts by figuring out what each person earned that pay period before any taxes or deductions come out. That number is called gross pay, and we'll show you exactly how to calculate it later in this guide.

Tip management

For a lot of your restaurant team, tips are a big part of their pay. Guests at Toast restaurants [tipped an average](#) of 19.1% at full-service restaurants and 15.8% at quick-service restaurants as of Q2 2026. Tip management can also be incredibly complex. Payroll has to track every tip (cash, card, online, and tip

pool), then report it and withhold taxes on it.

A [POS system with built-in payroll and tip management](#) is designed to help save time and support accurate pay tracking across your restaurant.

Tip credits

A [tip credit](#) lets a restaurant pay tipped employees a lower cash wage, provided those employees' tips bring them up to at least [minimum wage](#). We'll break down exactly how tip credits work below.

Multi-rate shifts

In restaurants, employees often work multiple roles in a single week, with each role potentially having a different pay rate and method of earning tips.

A server might pick up a host shift at a different rate. A bartender might cover a barback shift and get paid out of the [tip pool](#) instead of earning tips directly. A prep cook might jump on the line for a double.

Each shift needs to be tracked under the correct job, since the role an employee works determines how they're paid.

For example:

- **Tip credits only apply to tipped work.** Restaurant employers can only take a tip credit for hours spent in a tipped role. If a tipped employee also works a separate non-tipped job, those hours have to be paid at that job's full rate. This is known as the dual jobs rule, which we discuss later.
- **Overtime uses a blended rate.** When someone works more than one role at different pay rates in the same week, their [overtime rate](#) isn't based on the higher rate or the lower one. It's a weighted average of every rate they earned that week.

Payroll taxes and withholdings

Every pay period, an employer will withhold:

- Federal income tax
- State tax
- Local income tax (where applicable)
- The employee's share of FICA taxes, which fund [Social Security and Medicare](#). (The employer matches that FICA contribution.)

Each of these pieces is manageable on its own, but in a restaurant, they overlap.

A single server's paycheck can involve a tip credit, cash and card tips, overtime at a blended rate, and tax withholding on tip income they already took home the night they earned it.

That's why a restaurant needs [its own payroll playbook](#), starting with tipped employees.

Restaurant payroll laws and regulations

Restaurant payroll is governed by a mix of federal, state, and local laws that set minimum wage, overtime, tip, and tax rules. Federal law sets the baseline, and state and local laws can add stricter requirements on top of it.

- **Fair Labor Standards Act (FLSA)** is the federal law that sets the core rules for minimum wage, overtime, and recordkeeping, plus restaurant-specific rules like tip credits and tip pooling.
- **State and local laws** can require higher minimum wages, limit or ban tip credits, or add rules like daily overtime and predictive scheduling. When [state minimum wages](#) are higher than federal law, employers have to follow the stricter rule.
- **Federal tax law** sets how wages and tips are taxed and reported, including the new “[No Tax on Tips](#)” deduction for eligible tipped workers.

Because these laws vary by location and change often, check with the state labor department, state tax agency, and city or county labor office for the rules that apply.

Why payroll for restaurants can be harder than other industries

Every business has to pay its people accurately and on time. But a few things about the way restaurants work make payroll a bigger job than it is in most industries.

Tipped employees

Most businesses never have to track income their employees earn directly from customers — but restaurants do. And because so many of your team members earn tips, the extra rules around tip credits, tip reporting, and taxes on tips impact a big share of payroll.

A mixed team

A single restaurant might have servers, bartenders, line cooks, dishwashers, hosts, and managers. Those positions have different pay structures across hourly, tipped, salaried, full-time, and part-time. On top of that, each type of employee comes with its own pay rules and tax implications, and some team members even switch between roles in the same week.

High turnover

Hiring is top of mind for operators, according to Toast's 2026 [Voice of the Restaurant Industry Survey](#). It was the second-biggest challenge restaurant operators identified — cited by 22% of operators, up 6 points year over year.

Every new hire means another round of paperwork and payroll setup, and every departure means a final paycheck to get right.

Pay plays a big role in who stays. In Toast's survey of 624 U.S. restaurant employees, 37% said good pay was [what they valued](#) most in a restaurant job, and 33% named poor hourly pay as a workplace pain point.

Thin margins

Labor is one of the highest costs a restaurant carries, so good payroll management isn't only about compliance. It also protects an employer's bottom line. And with improving profitability listed as operators' top goal in 2026 — named by 37% [in the same survey](#) — it pays to track labor costs against sales every pay period.

None of this means payroll has to be a headache. It just means that restaurants can benefit from a payroll process [built for the way they actually work](#).

Resource

New Hire Onboarding Checklist

High turnover means onboarding never really stops. Give your managers one standard checklist for every new hire, covering paperwork, payroll, scheduling, and training.

[\[Get the Free Download\]](#)

How much should payroll be for a restaurant?

There's no single right amount a restaurant should spend on payroll. Operators typically track labor cost as a percentage of sales (total labor cost divided by net sales) and set a target based on their service model, location, wage structure, and past performance.

Want benchmarks and a full walkthrough of the math? Check out our guides to [restaurant payroll percentage](#) and [how to calculate labor cost percentage](#).

What is the 30-30-30 rule for restaurants?

The 30-30-30 rule is a budgeting rule of thumb that splits a restaurant's revenue into three buckets: about 30% for food and beverage costs, 30% for labor, and 30% for overhead like rent, utilities, and insurance. That leaves 10% as profit.

It's a helpful starting point, but many restaurants don't fit neatly into it. You can use it as a quick gut check, then build your budget around your own numbers.

Resource

Restaurant Profit Margin Calculator

Find out how efficiently your restaurant turns sales into profit, and track your profit margin consistently over time.

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Tipped employee payroll: tip credits, tipped overtime, and the dual jobs rule

We'll get into the day-to-day details of running payroll later in this guide. But first, let's look at the

most important (and most restaurant-specific) part of it: paying tipped employees.

Tipped employee payroll is where federal wage law, state law, and tax rules all meet.

Employers are balancing a lower cash wage against tips they don't control, overtime that's calculated from a rate they don't actually pay, and [reporting rules that changed](#) in 2026. Getting it right here makes everything else in this guide easier.

This matters to employees, too. In [Toast's survey](#) of 624 U.S. restaurant employees, 28% of tipped workers said they were unsure how much of their wages came from tips.

What is a tipped employee?

Under [federal law](#), a tipped employee is anyone who works in a job where they typically (and regularly) receive more than \$30 a month in tips. In a restaurant, tipped employees are usually servers, bartenders, and bussers.

For each tipped employee, a restaurant's payroll has to account for:

- Their cash wage, or the hourly rate the employer actually pays
- The tip credit, if the employer takes one
- Their tips, including cash tips, card tips, and tip pool shares
- Overtime, calculated the tipped-employee way
- Taxes on their reported tips

What is a tip credit?

A tip credit is the part of a tipped employee's minimum wage that their tips cover. [Federal law](#) allows operators to pay a tipped employee a cash wage as low as \$2.13 an hour — and then apply up to \$5.12 an hour of the employee's tips toward the \$7.25 federal minimum wage.

A [few rules](#) come with it:

- **Employees must be told first.** Employers have to inform tipped employees about the tip credit before taking it, including their hourly cash wage and the amount of tip credit to be claimed.
- **Tip credit can't exceed the tips they actually received.** For example, if an employee earns \$300 in tips in a week, the employer can't claim more than \$300 in tip credit for that week.
- **Tips belong to the employee,** except for what goes into a valid tip pool (if applicable).

Note: Federal law is just the minimum of what's allowed. Many states require a higher cash wage paid by employers, and some don't allow a tip credit at all.

State and local tip credit rules

State and local laws can raise the cash wage employers owe to tipped employees, or ban the tip credit entirely. Federal rules are the floor, and whichever rule is more generous to the employee is the one employers must follow.

Because these rules can change mid-year and vary across federal, state, and local levels, employers should check the [Department of Labor's state tipped minimum wage table](#) and their state labor

department at least once a year (as well as anytime they [open a new restaurant](#))

Resource

Opening a Restaurant Checklist

Opening a new restaurant? Payroll setup is just one item on the list. Map out everything else, from budgets and location research to a countdown that starts nine months before opening day.

[\[Get Free Download\]](#)

Example: how to calculate a tipped server's weekly pay

Christian is a server at Sarah's Restaurant in Texas. He worked a standard 40-hour week with no overtime, earned the \$2.13 federal minimum cash wage, and made \$750 in tips. He didn't receive any other compensation this week.

Cash wage	Hours	Tips
\$2.13/hr	40	\$750

Note: For this example, the restaurant is in a state that follows the [federal minimum wage](#) and allows a tip credit.

Christian's cash wage is \$2.13 an hour, but his real minimum wage is still \$7.25 an hour. So for a 40-hour week, he has to earn at least \$290. Sarah's Restaurant pays \$85.20 of that in cash wages, and his tips have to cover the other \$204.80. That \$204.80 is the tip credit Sarah's Restaurant takes toward its minimum wage obligation.

Here's the math for Christian's week:

- **Minimum wage for the week:** 40 hours $\times$ \$7.25 = \$290
- **Cash wages from Sarah's Restaurant:** 40 hours $\times$ \$2.13 = \$85.20
- **Tip credit needed to reach minimum wage:** \$290 - \$85.20 = \$204.80
- **Check the tips:** Christian earned \$750 in tips, well above \$204.80, so no extra pay is owed. (If he'd only earned \$100 in tips, Sarah's Restaurant would owe him the \$104.80 difference.)
- **Gross pay:** \$85.20 + \$750 = \$835.20

Result: Christian's gross pay is \$835.20, and Sarah's Restaurant pays \$85.20 of it in cash wages.

Common mistake to avoid: Using this same math in a state that [doesn't allow a tip credit](#). If Christian worked this same week in a state that doesn't allow a tip credit, Sarah's Restaurant would owe him the full state minimum wage for every hour, before tips.

What happens when tips don't cover minimum wage

If a tipped employee's cash wages plus tips don't add up to at least minimum wage for the week, the employer [has to pay the difference](#). This extra pay is sometimes called tip makeup.

Two things to keep in mind:

- **The check happens every workweek.** A strong week can't make up for a slow one, even if they fall in the same pay period.
- **The tip makeup is paid as wages** on that pay period's regular paycheck.

How to calculate tipped overtime

Overtime for a tipped employee is calculated from the *full minimum wage*, not their cash wage. That's because, for overtime purposes, a tipped employee's regular rate is the [full minimum wage](#). The tip credit is just how the employer covers part of it.

To [calculate tipped overtime](#), figure out time and a half at the full minimum wage first, then subtract the tip credit (if the state allows one). Multiplying the cash wage by 1.5 instead is a common tipped payroll mistake. The example below shows what it costs.

This is also where a [payroll system that's integrated with your POS](#) earns its keep. When hours, job codes, and tips flow straight from your POS into payroll, overtime gets calculated from the right numbers, not from someone re-entering them by hand at the end of a long week.

Example: tipped overtime, calculated correctly

Scenario: Maria is a server at Sarah's Restaurant in Texas. She worked 55 hours this week, including 15 hours of overtime.

Cash wage	Tip credit	Hours	Tips
\$2.13/hr	\$5.12/hr	55 (15 overtime)	\$800

Note: For this example, the restaurant is in a state that follows the [federal minimum wage](#) and allows a tip credit.

Here's how to calculate Maria's tipped overtime:

- Cash wages for regular hours: $40 \times \$2.13 = \85.20
- Overtime cash wage: $(\$7.25 \times 1.5) - \$5.12 = \$5.76$ an hour
- Cash wages for overtime hours: $15 \times \$5.76 = \86.40
- Total cash wages: $\$85.20 + \$86.40 = \$171.60$
- Check the tips: The tip credit Sarah's Restaurant took is $55 \times \$5.12 = \281.60 . Maria's \$800 in tips covers it.
- Gross pay: $\$171.60 + \$800 = \$971.60$

Result: Maria's gross pay is \$971.60, and Sarah's Restaurant pays \$171.60 of it in cash wages.

The common mistake (and what it costs): Paying overtime at $1.5 \times \$2.13$ (\$3.20 an hour) instead of \$5.76 shorts Maria by \$2.56 for every overtime hour, or \$38.40 this week. If that happens every week, it adds up to nearly \$2,000 a year for a single employee. And if it comes up in a [Department of Labor investigation](#), Sarah's Restaurant could owe back wages *plus* liquidated damages.

Tipped vs. non-tipped wage calculation (including overtime)

The easiest way to see how differently tipped employees get paid is side by side, with overtime included.

Here's how Maria's week compares to a line cook who worked the same 55 hours at Sarah's Restaurant:

Tipped vs. Non-tipped wages	Server (Maria) <i>Tipped</i>	Line cook <i>Non-tipped</i>
Cash wage	\$2.13/hr	\$18.00/hr
Tip credit	\$5.12/hr	None
Rate used to calculate overtime	\$7.25/hr	\$18.00/hr
Overtime rate	\$10.88/hr (\$5.76 paid in cash)	\$27.00/hr
Cash wages paid by the employer	\$171.60	\$1,125.00
Tips	\$800.00	\$0
Total (gross) pay	\$971.60	\$1,125.00

Note: For this example, the restaurant is in a state that follows the [federal minimum wage](#) and allows a tip credit.

Both employees are paid time and a half for overtime. The difference between the two employees is what that time and a half is based on: the line cook's full hourly rate, or the full \$7.25 federal minimum wage for the server.

What is the dual jobs rule?

The dual jobs rule is a [federal rule](#) that says an employer can only take a tip credit for the hours a tipped employee spends working *in their tipped job*. If a server also picks up a separate, *non-tipped* job for the restaurant (like a prep cook shift), the employer can take the tip credit for their serving hours *only*. Their prep hours have to be paid at that role's full rate.

What is the 80/20 rule?

The 80/20 rule was a stricter version of the dual jobs rule that limited how much side work a tipped employee could do while the employer took the tip credit. If an employer wanted to use the tip credit for an employee, side work that supported the tipped job (like rolling silverware or restocking) couldn't take up more than 20% of the employee's workweek, or more than 30 minutes in a row. Past

either limit, employers had to pay the full minimum wage for that time.

A federal appeals court [struck the rule down](#) in 2024. Some courts (and several states) still apply their own versions of the rule, so check state rules before determining pay rates.

Example: One employee, two roles, one workweek

Scenario: Andre is a server at Sarah's Restaurant in Texas who also picked up two prep shifts in the kitchen this week.

Role	Hours	Rate	Tips
Server	28	\$2.13/hr + tip credit	\$500
Prep cook	10	\$15.00/hr	None

Note: For this example, the restaurant is in a state that follows the [federal minimum wage](#) and allows a tip credit.

Here's how to calculate Andre's payroll when he worked two roles in one week:

- Server cash wages: $28 \times \$2.13 = \59.64
- Prep cook wages: $10 \times \$15.00 = \150.00
- Check the tips: The tip credit only applies to Andre's 28 serving hours ($28 \times \$5.12 = \143.36). His \$500 in tips covers it.
- Gross pay: $\$59.64 + \$150.00 + \$500 = \709.64

Result: Andre's gross pay is \$709.64, and Sarah's Restaurant pays \$209.64 of it in cash wages.

Common mistake to avoid: Paying all 38 hours at the \$2.13 tipped wage. That would short Andre \$128.70 on his prep shifts alone.

What if Andre works overtime? Let's update his example: Andre serves for 35 hours and preps for 10, for a total of 45 hours worked this week. His overtime rate is based on a weighted average of both roles' rates, with his serving hours counted at the full \$7.25 minimum wage:

1. Straight-time pay: $(35 \times \$7.25) + (10 \times \$15.00) = \$403.75$
2. Regular rate: $\$403.75 \div 45 \text{ hours} = \8.97 an hour
3. Overtime premium: $5 \text{ hours} \times (\$8.97 \div 2) = \$22.43$

Sarah's Restaurant still takes the \$5.12 tip credit only on his 35 serving hours.

Tip pooling rules

Tip pooling is when employees combine their tips and split them according to a set formula (like by hours worked or by role).

Who can join the pool depends on whether the employer takes a tip credit:

- **If the employer takes a tip credit:** the pool can only include employees who customarily and regularly receive tips, like servers, bartenders, and bussers.
- **If the employer pays everyone the full minimum wage:** the pool can also include back-of-house staff like cooks and dishwashers.

Other tip pool [rules](#) to keep in mind:

- Managers and supervisors can never receive tips from a tip pool.
- Employers can't keep any portion of employees' tips, regardless of whether (or not) they take a tip credit.

Resource

Tip Pooling Calculator

See what each team member takes from the tip pool. Set your roles and split method, add your staff, and watch the numbers update in real time.

[\[Try the Free Calculator\]](#)

Service charges vs. tips

A tip is money a guest chooses to leave; a service charge is a mandatory fee the restaurant adds to the bill (like an automatic 20% gratuity for parties of eight or more). Even if every dollar of a service charge goes to staff, it still isn't a tip. It counts as restaurant revenue, and when the restaurant pays it out to employees, it counts as [regular wages](#).

That difference impacts payroll in three ways:

- **Tip credit:** Service charges can count toward the employer's [minimum wage obligation](#), but not as tips toward a tip credit.
- **Overtime:** Service charges paid to employees [have to be included](#) in their regular rate when calculating overtime.
- **No Tax on Tips:** Service charges don't count as qualified tips for the new [federal tax deduction](#).

How to set up restaurant payroll: paperwork checklist

To set up restaurant payroll, you'll need a federal tax ID, state tax and unemployment accounts, workers' compensation insurance, and a set of forms for every new hire. Here's what to get in place before you run your first payroll.

- 1. Get an Employer Identification Number (EIN).** Your EIN is your federal tax ID, and almost every business with employees needs one. You can apply for free on the [IRS website](#).
- 2. Register with your state.** Set up an unemployment insurance (SUTA) account with your state labor department, and a withholding account with your state tax agency if your state has an income tax.
- 3. Get workers' compensation insurance.** Most states require it to cover employees for job-related injuries and illnesses.

4. Collect new hire forms. For every new employee, you'll need:

- **Form W-4**, which determines how much federal income tax to withhold.
- **Form I-9**, which verifies their identity and eligibility to work in the U.S. You and the employee both complete it.
- **State withholding forms**, if applicable. Not all states require additional withholding, so check with your state.
- **A direct deposit authorization (optional)**. You only need this if you offer direct deposit (and if an employee opts in).

5. Report new hires to your state. Federal law requires employers to report every new hire to their state's [Directory of New Hires](#) within 20 days of the hire date, and some states set shorter deadlines.

6. Create and share an employee handbook. Your [restaurant employee handbook](#) should spell out pay schedules, tip policies, benefits, and expectations, so there's no confusion about how your team gets paid. Give it to every new hire, and update it when your policies change.

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Restaurant Employee Handbook Template

Build your employee handbook without starting from scratch. This fill-in-the-blank template includes a pay and benefits section, plus sections for your procedures, conduct, and more.

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Note: While this checklist can be a great jumping off point, legal and paperwork-related payroll requirements may vary by location. If you're unsure of the required restaurant payroll paperwork and/or legal setup in your area, consider seeking professional help from a local accounting or payroll professional. These professionals can offer more specific guidance on how to set up your payroll and ensure compliance across all your restaurant payroll processes.

How to choose a restaurant pay schedule

A pay schedule is how often you pay your employees: weekly, biweekly, semimonthly, or monthly. The right one balances what your team needs (steady, predictable paychecks) with what your business can manage (the time and cost of running payroll).

Here's how the four most common schedules compare:

Schedule	Pay periods per year	Pros	Cons	Best fit
Weekly	52	Employees get paid often, which may help with retention. Final paychecks are quick to process when someone leaves.	Most admin work, since you run payroll every week.	Teams with lots of hourly and tipped staff, or high turnover

Biweekly	26	Regular paychecks without running payroll every week.	Two months a year have three paydays, so budget for them.	Most restaurants are looking for a middle ground
Semimonthly	24	Fixed pay dates (like the 15th and last day of the month) make budgeting easier.	Pay periods vary in length, which complicates hourly and overtime calculations.	Mostly salaried teams
Monthly	12	Least admin work.	Long waits between paychecks are hard on hourly staff, and some states don't allow monthly pay.	Rarely a good fit for restaurants

Before you decide on which payroll schedule to use in your restaurant, check your state's pay frequency rules. Many states set a minimum for how often you have to pay hourly employees.

How predictive scheduling affects payroll

Predictive scheduling laws (also called [Fair Workweek laws](#)) are state or local rules that set requirements for how employers schedule their teams. Depending on location, they might require an employer to:

- Post schedules a set number of days in advance
- Pay employees extra when their schedules change on short notice
- Give employees a minimum amount of rest time between shifts
- Offer additional hours to current employees before hiring new ones

These laws don't apply everywhere, and some only cover certain types or sizes of businesses. If a restaurant is covered, any extra pay these laws require (often called "predictability pay") counts as wages. That pay needs to show up on the employee's paycheck for the pay period when the schedule change happened, so it's important for scheduling and payroll systems to stay connected.

How to do restaurant payroll: step-by-step

Here's how to do restaurant payroll: collect hours and tips, calculate each employee's gross pay, withhold taxes, pay your team, and then file and deposit those taxes.

Here's how each step works.

- **Collect and approve timecards.** Review hours, breaks, and job codes for every employee before the pay period closes. Hours logged under the wrong job can throw off tip credits and overtime.

- **Collect tip data from your POS.** Pull card tips, reported cash tips, and tip pool payouts, and keep service charges separate.
- **Calculate gross pay*.** Gross pay is everything an employee earns before taxes and deductions:
 - **Hourly employees:** (Regular hours × regular rate) + (overtime hours × overtime rate) + any other pay, like bonuses
 - **Tipped employees:** The same formula, plus tips
 - **Salaried employees:** Annual salary ÷ pay periods per year + any other pay
- **Withhold taxes and deductions to get net pay.** Net pay, or take-home pay, is what's left after taxes and deductions:

Net pay = gross pay – (federal income tax + state and local income tax + FICA taxes + other deductions).

Other deductions can include things like health insurance premiums or retirement contributions.

- **Calculate employer taxes.** That includes your share of FICA plus federal and state unemployment taxes.
- **Pay your team.** Pay by direct deposit or check on your scheduled payday. Direct deposit gets employees their money faster and saves you the time of printing checks.
- **File and deposit your taxes.** Deposit the taxes you withheld, plus your employer taxes, on the schedule the IRS assigns you, and file your payroll tax forms on time.
- **Keep records.** Save timecards, tip records, and payroll reports for as long as required.

* If you pay a bonus that was promised ahead of time, like a sales incentive, include it in the employee's regular rate when you calculate overtime.

Note: Actual tax liabilities and withholdings may vary. For more detailed information on federal tax withholding requirements, visit IRS Publication 15 (2026), (Circular E), [Employer's Tax Guide](#). For state withholding requirements, visit your state's Department of Revenue or tax agency website.

Resource

Restaurant Training Manual Template

When every team member knows their role, it's easier to clock in under the right job. Outline each role's functions and responsibilities, then confirm what they've learned with a built-in knowledge check.

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Example: how to calculate gross pay (with overtime and a bonus)

Monica is a line cook at Sarah's Restaurant who earns \$18 an hour. This week, she worked 45 hours and won a \$150 bonus in a recipe contest Sarah's Restaurant announced at the start of the month.

Hourly rate	Hours	Bonus
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\$18/hr	45 (5 overtime)	\$150
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Because the bonus was promised ahead of time, it has to be included in Monica's regular rate when calculating overtime:

- **Straight-time pay:** 45 hours $\times$ \$18 = \$810
- **Add the bonus:** \$810 + \$150 = \$960
- **Regular rate:** \$960 $\div$ 45 hours = \$21.33 an hour
- **Overtime premium:** 5 overtime hours $\times$ (\$21.33 $\div$ 2) = \$53.33
- **Gross pay:** \$960 + \$53.33 = \$1,013.33

Result: Monica's gross pay for the week is \$1,013.33.

Example: How to calculate net pay

Here's Monica's take-home pay for the same week. Sarah's Restaurant is in Texas (which has no state income tax), and Monica's health insurance premium is \$150 a week.

Gross pay	Federal income tax	State income tax	FICA	Health insurance
\$1,013.33	12%	None (Texas)	7.65%	\$150 (after tax)

Note: To keep the math simple, this example uses a flat federal income tax rate. Actual withholding is based on each employee's Form W-4 and the IRS withholding tables.

- **Federal income tax:** \$1,013.33 $\times$ 12% = \$121.60
- **State income tax:** \$0 (Texas doesn't have a state income tax)
- **FICA taxes (6.2% Social Security + 1.45% Medicare):** \$1,013.33 $\times$ 7.65% = \$77.52
- **Health insurance premium:** \$150
- **Net pay:** \$1,013.33 – \$121.60 – \$77.52 – \$150 = \$664.21

Result: Monica takes home \$664.21 for the week.

Common mistake to avoid: Withholding only 6.2% for FICA. That covers Social Security, but not the 1.45% for Medicare.

Restaurant payroll taxes

Restaurant payroll taxes are the federal, state, and sometimes local taxes employers withhold from employees' wages and tips, plus the taxes employers pay on top of those wages. Employers are responsible for withholding, paying, and reporting all of them — even the ones that come out of employees' paychecks.

How "No Tax on Tips" changes tipped payroll reporting in 2026

"No Tax on Tips" is a [federal income tax deduction](#) that lets eligible tipped workers deduct up to \$25,000 in qualified tips from their taxable income through 2028, with income limits. It only applies to

federal income tax, so tips are still subject to Social Security and Medicare taxes.

Employees claim the deduction on their own tax returns, but employers supply the numbers. Starting with 2026 wages, Form W-2 reports:

- **Box 12, [code TP](#):** The total tips each employee reported to their employer
- **Box 14b:** Up to two Treasury Tipped Occupation Codes for the employee's tipped job(s)

The IRS gave employers a break on this reporting for 2025, but 2026 is the first year it's required.

For employers, getting ready before year-end means:

- Matching each tipped job in the payroll system to its occupation code.
- Keeping tips separate from [service charges](#), which don't count as tips.
- Confirming the payroll provider supports the new W-2 fields.

State and federal payroll taxes restaurants need to withhold

Here are the payroll taxes most restaurants handle every pay period:

Tax	Level	What it's for	Who pays
Federal income tax	Federal	The employee's federal income tax, based on their Form W-4	Employee (employer withholds it)
Social Security (FICA)	Federal	Social Security benefits for retirees, disabled workers, and survivors	Employee 6.2% + employer 6.2%, on wages up to \$184,500 in 2026
Medicare (FICA)	Federal	Medicare health insurance	Employee 1.45% + employer 1.45%, no wage cap
Additional Medicare	Federal	An extra Medicare tax for high earners	Employee 0.9% on wages over \$200,000
Federal unemployment (FUTA)	Federal	Federal unemployment programs	Employer only. 6.0% on the first \$7,000 of each employee's wages, but most employers get a credit of up to 5.4%, for a net rate of 0.6%
State unemployment	State	State unemployment benefits	Employer only (a few states also withhold from employees). Rates vary by

(SUTA)			state
State and local income tax	State/local	The employee's state and local income taxes, where applicable. Not all states have income tax.	Employee (employer withholds it)
Taxes on reported tips	Federal and state/local	Income tax and FICA on the tips employees report to their employer. Tips are taxed like wages, though eligible employees may be able to deduct qualified tips from their federal taxable income under No Tax on Tips	Employee's share is withheld from their wages. Employers pay the employer share of FICA, and may be able to claim a tax credit for part of it

Note: While this section provides general information about payroll recordkeeping, it is not financial or legal advice. For more insight into your personal payroll obligations and to ensure compliance with all relevant tax laws, make sure to consult with a tax professional.

Federal payroll tax forms and due dates

Restaurant employers file five main federal payroll tax forms: Form 941 every quarter, and Forms 940, W-2, 1099-NEC, and 8027 once a year.

These forms report the wages you paid as the restaurant employer, the taxes you withheld and owe, and (for many restaurants) your employees' tips to the IRS and the Social Security Administration (SSA). You'll also send employees and contractors copies of some of these.

Form	What it reports	Filed by and with	Due
Form 941	Wages paid, federal income tax withheld, and FICA taxes	Employer to IRS	Quarterly: April 30, July 31, October 31, and January 31
Form 940	Annual federal unemployment (FUTA) taxes	Employer to IRS	January 31 of the following year
Form W-2	Each employee's annual wages, tips, and taxes withheld, including the new tip reporting fields for No Tax on Tips	Employer to employee and SSA	January 31 of the following year

Form 1099-NE C	Payments of \$2,000 or more to independent contractors (for payments made in 2026; adjusted for inflation thereafter)	Employer to contractor and IRS	January 31 of the following year
Form 8027	Total receipts and tips for large food and beverage businesses where tipping is customary	Employer to IRS	Last day of February (paper) or March 31 (electronic) of the following year

Note: While this section provides general information about payroll taxes, it is not financial or legal advice. For more insight into your personal payroll obligations and to ensure compliance with all relevant tax laws, make sure to consult with a tax professional.

If a due date falls on a weekend or holiday, the due date moves to the next business day. Your state will have its own forms, too, usually quarterly returns for state income tax withholding and unemployment taxes, so check with your state tax and labor agencies.

Taxes on tips (including withholding on reported tips, the FICA tip credit)

Tips are taxable income, so the same federal income tax and FICA withholding that applies to wages also applies to the tips employees report to their employer.

Here's what to know:

- **Tip reporting:** Employees who receive \$20 or more in tips in a month [must report them](#) to their employer by the 10th of the following month.
- **Withholding:** Employers usually take the taxes owed on tips out of the employee's regular wages. For tipped employees with low cash wages, those wages might not cover everything, and [IRS Publication 15](#) explains how to handle the difference.
- **The FICA tip credit:** Employers may be able to claim a federal income tax credit for part of the Social Security and Medicare taxes they pay on employees' tips, using Form 8846.
- **Allocated tips:** If a restaurant files Form 8027 and its employees' reported tips add up to less than 8% of its gross receipts, it may need to allocate the difference among employees. Allocated tips are [reported](#) on the employee's W-2 but aren't subject to withholding.

Restaurant payroll recordkeeping: how long to keep records

Restaurants generally need to keep payroll records for at least three to four years, depending on the agency. The [Department of Labor](#) requires most payroll records for three years, and the [IRS](#) requires employment tax records for four. Some states might require longer.

Keeping good records protects an employer in two situations:

- **Audits:** If the IRS or Department of Labor audits a restaurant, they'll likely ask for timecards, tip records, and payroll reports.
- **Pay disputes:** If an employee says they were underpaid, the restaurant's records are how they show what an employee worked and what the restaurant paid.

Our recordkeeping retention table breaks down how long each agency requires employers to keep records:

Agency	What to keep	How long to keep
Department of Labor (under the FLSA)	Payroll records, like employee information, hours worked, pay rates, and wages paid	At least 3 years
Department of Labor (under the FLSA)	Records used to calculate wages, like timecards, work schedules, and records of additions to or deductions from pay	At least 2 years
Internal Revenue Service (IRS)	Employment tax records, like tip reports, W-4s, tax deposits, and filed returns	At least 4 years after the tax is due or paid, whichever is later
U.S. Citizenship and Immigration Services (USCIS)	Form I-9	3 years after the hire date or 1 year after employment ends, whichever is later
Specific state	State payroll and tax records	Varies by state

Note: While this section provides general information about payroll taxes, it is not financial or legal advice. For more insight into your personal payroll obligations and to ensure compliance with all relevant tax laws, make sure to consult with a tax professional.

How to choose restaurant payroll software

Restaurant payroll software and restaurant payroll services automate the work of paying your team: pulling in hours and tips, calculating wages and taxes, paying employees, and filing payroll taxes. The right one handles restaurant-specific rules like tip credits and tipped overtime, not just standard hourly pay.

Your options for running restaurant payroll include some of the following:

Option	How it works	Notes
Do it yourself	You (or your accountant) calculate pay, cut checks, and file taxes	Lowest cost, but every tip credit and overtime calculation is manual
General payroll software or services	A payroll provider calculates pay, pays employees, and files taxes for any type of business	Tip credits, tip pools, and POS data may need extra setup or manual entry

Payroll connected to your restaurant POS	Payroll pulls hours, job codes, and tips directly from your POS	Designed around restaurant pay rules, but typically works best with that provider's POS
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What to look for in restaurant payroll software

Whichever option you're considering, ask these questions before you sign on:

- **Does it check tip credits every workweek** and flag when tips don't cover minimum wage?
- **Does it calculate tipped overtime** from the full minimum wage, not the cash wage?
- **Can employees clock in under different jobs** so dual jobs and blended overtime rates are handled automatically?
- **Does it track every kind of tip** (card tips, cash tips, and tip pools) and keep service charges separate?
- **Does it file your payroll taxes and year-end forms**, including the new No Tax on Tips W-2 fields?
- **Does it connect to your POS and scheduling**, so no one has to re-enter hours and tips by hand?
- **Does it store the records you're required to keep?**

Toast Payroll & Team Management

[Toast Payroll & Team Management](#) is built to connect hours, tips, pay rates, overtime, and tip makeup with sales recorded in Toast POS — helping operators streamline payroll reconciliation. That means the numbers behind your tip credits, tipped overtime, and labor cost percentage all come from the same place your team rings in orders. You can spend less time reconciling payroll and more time running your restaurant.

For more information on how to navigate restaurant payroll and set up compliant payroll processes that benefit your restaurant and your employees, contact an experienced payroll, accounting, or tax specialist and/or visit the [IRS' small business tax resource page](#).

FAQs about restaurant payroll

How do restaurants pay their employees?

Payroll for restaurant employees depends on how each person is paid: hourly employees earn pay for every hour worked, salaried employees receive a fixed amount each pay period, and tipped employees receive their tips on top of their cash wage. Paychecks [usually go out](#) weekly or biweekly by direct deposit, paper check, or pay card.

What is the minimum wage for tipped employees?

Under [federal law](#), restaurants can pay tipped employees a cash wage as low as \$2.13 an hour, as long as tips bring them up to the \$7.25 federal minimum wage. Many states require a higher cash wage, and some don't allow a [tip credit](#) at all.

Are tips included in payroll?

Tips employees report to their employer are taxable wages, so they're included in tax withholding and on each employee's Form W-2. But guest-paid tips [aren't a labor cost](#) for the restaurant; only the wages it pays are.

Who pays taxes on tips?

Both the [employee and the employer](#). Employers withhold the employee's income tax and share of FICA taxes on reported tips, and pay the employer share of FICA.

How often should a restaurant run payroll?

Most [restaurants run payroll weekly or biweekly](#). Weekly pay may help with retention on hourly and tipped teams, while biweekly cuts down on admin work. Check your state's rules, since many set a minimum for how often employers have to pay hourly employees.

Can managers share in a tip pool?

No. Under [federal law](#), managers and supervisors can't receive tips from a tip pool, whether or not the restaurant takes a tip credit.

What's the difference between restaurant payroll software and restaurant payroll services?

Restaurant payroll software lets restaurants run payroll themselves, with automated calculations and tax filing. Restaurant payroll services typically handle more of the process for them, sometimes including HR support. Many providers offer both.

Instructions

Currently, [this guide](#) lives as a resource page in our outdated CMS. Unlike the POS guide, it is *not* earning organic visibility. The URL currently ranks for zero keywords in the US. So this one is less about capitalizing on existing rankings and more about claiming a category we should already own: Toast offers payroll, and yet we do not appear anywhere in the top 10 for “restaurant payroll.”

We want to republish this as an updated On The Line article at **[/blog/on-the-line/restaurant-payroll](#)** and redirect the existing resource URL to the new article.

This is an important piece because it should serve as the comprehensive, operator-facing resource on how restaurant payroll actually works — the paperwork, the pay schedules, the taxes, the tipped-employee math, and the recordkeeping.

The goal is to make this the go-to educational resource on the topic while establishing [Toast’s Payroll page](#) as the primary pillar page. Throughout the article, we should naturally link to relevant Toast products and core site pages wherever they help readers learn more.

The draft below is the current version. Much of the structure is solid, but it is written as a linear six-step guide rather than as something search engines and LLMs can extract from. Rather than simply refreshing the existing copy, I recommend using it as a structural template and checklist for the topics we should cover, then rewriting and reorganizing the article based on current SEO/AEO best practices.

A few guidelines as you work:

- **Replace the “Step One / Step Two” chapter structure with SEO- and AEO-driven headings.** The People Also Ask box on this SERP is telling us exactly what to answer: “How to do payroll for a restaurant?”, “What should payroll be for a restaurant?”, “How do restaurants pay their employees?”, “What is the 30/30/30 rule for restaurants?” Make headings and sections directly answer those queries. Note that we do not currently cover the 30/30/30 rule anywhere in this draft, but we should.
- **Prioritize comprehensiveness and usefulness.** This should cover everything an operator reasonably needs to understand about running payroll in a restaurant: required paperwork, pay schedules, payroll taxes, tipped-employee wage math, choosing a system, calculating gross/net pay and labor cost, and recordkeeping.
- **Lead with the tipped-employee math.** It is the hardest, highest-anxiety part of restaurant payroll and the part generalist payroll vendors (Gusto, Paychex, Rippling) cover thinly. The tip credit, tipped overtime, the dual jobs rule, tip pooling, and service charges vs. tips are where a restaurant-native brand should obviously outrank a horizontal one. The worked examples already in this draft (Maria, Christian, Monica) are genuinely good — keep them, expand them, and make each one independently extractable.
- **Link back to Toast’s core pages wherever relevant.** When in doubt, run a site search. Note that we already have [/blog/on-the-line/restaurant-payroll-percentage](#) ranking #6 for “restaurant payroll percentage” — this new article should link to it rather than compete with it, so keep labor-cost-percentage coverage here summary-level and point deeper coverage there.
- **Prioritize Toast data over external sources.** Whenever we have proprietary research that can support a point, use that before looking for third-party statistics. Many of our reports [live here](#), and the [Voice of the Restaurant Industry 2026 report](#) is one of our most recent and useful

sources. Several stats in the current draft are dated to 2025 and should be refreshed or replaced with Toast data.

- **Verify every wage, tax, and threshold figure before publishing.** This draft cites the \$2.13 federal cash wage, the \$5.12 maximum tip credit, the \$7.25 federal minimum, FUTA at 6.0% on the first \$7,000, and the 20%/30-minute dual jobs thresholds. Tipped-wage rules and the 80/20 guidance have been litigated repeatedly — confirm current federal rules and flag anything in flux. Keep the existing legal disclaimers. If you're unsure of any information or claims feel free to comment/tag me in to flag.
- **Reformat the content wherever it improves readability or answerability.** Use bullets, numbered steps, FAQs, definitions, and other structures when they make information easier to understand. Add an FAQ block mapped to the PAA questions.
- **Lean into tables — this topic is unusually well suited to them.** The payroll tax table and the IRS forms/due dates table in the current draft are the strongest assets in the piece and are exactly the kind of structured content LLMs surface and cite. Consider adding tables for: pay schedule comparison (currently prose bullets), tipped vs. non-tipped wage calculation side by side, and recordkeeping retention periods by agency (currently a long list).
- **Write for both search engines and LLMs without sacrificing the reader.** Provide clear, direct answers upfront, then expand with additional context. The goal is to make sections easy to extract and cite while still creating a genuinely useful resource for restaurant operators.
- **Don't feel like you need to go quote for quote, but we do have some legally approved testimonials and power stats available** if you want operator voice in here.

SEO elements

URL: Will be <https://pos.toasttab.com/blog/on-the-line/restaurant-payroll> (redirect from <https://pos.toasttab.com/resources/restaurant-payroll>)

Primary Term: restaurant payroll (350 MSV, 0 KD)

Secondary terms: payroll for restaurants (600 MSV, 2 KD) · restaurant payroll software (450 MSV, 0 KD) · restaurant payroll services (250 MSV, 1 KD) · restaurant payroll management (200 MSV, 0 KD) · restaurant payroll taxes (150 MSV, 0 KD) · payroll for restaurant employees (150 MSV, 2 KD) · tip credit (700 MSV, 0 KD, 1,600 traffic potential) · how to do restaurant payroll (70 MSV).

Meta Title: Restaurant Payroll: The Complete Guide for Operators | Toast POS

Short Description: Restaurant payroll plays by its own rules — tip credits, tipped overtime, the dual jobs rule, and taxes most payroll guides skip. Here's how to run it accurately, step by step, from new-hire paperwork to your last recordkeeping requirement.

Meta Description: How to run restaurant payroll: required paperwork, pay schedules, payroll taxes, tip credits and tipped overtime, plus how to calculate gross pay, net pay, and labor cost.

Current AI Overview: Restaurant payroll involves calculating wages, managing tips, withholding taxes, and tracking overtime for hourly and tipped staff. [1, 2]

SERP Analysis: No Toast page ranks in the top 10 for “restaurant payroll,” and the current /resources/restaurant-payroll URL ranks for zero keywords in the US. The top 10 splits into two groups. First, generalist payroll vendors running thin industry landing pages: Restaurant365 (#1, DR 73, ~8 monthly visits to that page), Paychex (#3, DR 81), Gusto (#6, DR 86), and Kore1 (#10, DR 52). These pages rank on domain authority rather than content depth — they are product pages wearing a keyword, and several pull almost no traffic. Second, actual editorial content: Sling's “Restaurant Payroll: The Ultimate Guide For Business Owners” (#4), Workstream's “Best Payroll Software for Restaurants” (#5), OnPay's “Restaurant payroll: How to handle tips, taxes, and overtime” (#7), and Rippling's “Payroll for Restaurants: 9 Essential Tools [2026]” (#9). Backlink profiles across the page are

notably weak — Rippling's ranking page has 2 referring domains, Workstream's has 9 — so this is winnable on content quality rather than authority. Keyword difficulty across the entire cluster sits at 0-3.

Opportunity: Every page ranking here is a payroll company writing about restaurants. Toast is a restaurant company that happens to offer payroll, and that inversion is the whole moat. Rather than writing generic statements like *Restaurants need to withhold taxes on reported tips*, Toast can say, essentially: *Here's the tipped overtime calculation most operators get wrong, here's what it costs when you get it wrong, here's what restaurant operators told us about labor in 2026, and here's how a POS-integrated payroll system prevents the error in the first place*. The existing worked examples in this draft are already doing this better than anything on page one, they just need to be surfaced with extractable headings instead of buried inside "Step Three." The specific content gaps to attack: tipped overtime math (nobody on page one shows the calculation), the dual jobs / 80-20 rule, service charges vs. tips, predictive scheduling's payroll impact, and the recordkeeping retention table. Also worth noting that the informational cluster ("restaurant payroll," "how to do restaurant payroll," "restaurant payroll taxes") and the commercial cluster ("restaurant payroll software," "restaurant payroll services," "best restaurant payroll software") overlap heavily in this SERP — an editorial piece that answers the informational intent well can reasonably capture commercial traffic too, which is why linking cleanly down to the Payroll product page matters.

Primary MEL Play: Restaurant Labor Cost Calculator (hero), Restaurant Profit Margin Calculator, Restaurant Training Manual Template, Restaurant Opening Checklist, Tip Pooling, New Hire Onboarding Checklist

Product Mention: Toast Payroll & Team Management is the primary product mention

Pillar Page: <https://pos.toasttab.com/products/payroll>

Current draft

Introduction

What is Payroll?

Restaurant industry sales are projected to hit a whopping \$1.6 trillion in 2025. And a significant portion of those projected sales, an estimated \$450 billion, will go towards restaurant payroll and compensating workers. But managing payroll in the restaurant industry comes with unique challenges. High turnover rates (nearly 80% annually) and short employee tenure (just 110 days on average) are common, along with complicated tax and labor cost considerations. As a restaurant operator, it's important to understand these complexities and know how to navigate them effectively. Luckily, restaurant payroll is like any other process; it becomes much easier to understand when you break it down step-by-step.

Let's take a deep dive into everything you need to know about restaurant payroll, including the payroll paperwork you'll need for each employee, the different options for processing payroll (and how to choose the best option for your restaurant), and a breakdown of restaurant payroll taxes. We'll also cover how to choose the right payroll platform for your restaurant, special considerations for tipped employees, and the formulas you'll need to calculate gross pay, net pay, and labor costs.

Note: This guide is for educational purposes only and does not constitute legal advice. Restaurant owners and managers should consult with legal counsel and/or a qualified payroll professional for specific advice and support.

What is restaurant payroll and why it matters

First things first. Before we go too deep into the topic, let's quickly touch on what, exactly, restaurant payroll is and why this restaurant payroll definition matters to your restaurant.

Let's start with some payroll basics. Payroll is the process by which employers pay their employees. This includes everything from calculating wages and gross pay, withholding federal and state taxes, managing deductions (for example, wage garnishments or benefits like health insurance), and distributing net pay to each employee.

Given that definition, restaurant payroll (or food service payroll) is the process by which restaurants pay their employees. And while all the aforementioned steps will need to be completed to run payroll for your restaurant, some additional steps and considerations can make restaurant payroll more challenging than other industries, including:

- **Diverse workforce.** From servers to bartenders, chefs to dishwashers, hosts to managers, restaurants often employ a diverse set of hourly, tipped, and salaried employees (as well as part and full-time) — each of which has distinct payroll requirements and tax implications.
- **High turnover.** Setting up payroll for each employee takes a solid amount of time, energy, and paperwork. But, as mentioned, the restaurant industry has an extremely high turnover rate and short employee tenure, which means restaurant managers and owners are continually having to put in the time and work to not only hire new employees, but get them properly set up for payroll.
- **Tipped employees.** While navigating payroll can be a complex process for any employee, it can be especially complex for tipped employees, who have special wage and tax considerations (more on those a bit later). And because so many restaurant staffers are eligible for tips, the

overall payroll process can feel more complex. Understanding the definition of restaurant payroll is one part of the equation. But the other is understanding why it matters. Making sure your restaurant payroll is accurate is a must. Why? Inaccuracies in your payroll processes can cause serious issues and consequences for your restaurant. For example, if you're miscalculating your employees' wages, you could find yourself on the hook for back wages. Or, if your restaurant consistently makes mistakes when distributing employee pay, it could make it harder to attract and retain top industry talent, both of which can negatively impact restaurant labor costs (which, ideally, will fall between 28 percent and 33 percent of your total revenue). Clearly, mastering restaurant payroll is important, both for your restaurant and your employees. But what does that actually look like?

Step One

Complete the Legally Required Payroll Paperwork

Before you start processing restaurant payroll and paying your team, there are a few legal steps you'll need to take as a business, as well as payroll paperwork you'll need to gather for every employee. Here's a checklist that outlines the paperwork and legal-related steps for setting up restaurant payroll:

Restaurant Payroll Setup Checklist

Obtain an Employer Identification Number (EIN)

If you don't already have it, submit your EIN application via the Internal Revenue Service's (IRS) website. This federal tax ID is required for almost all businesses with employees.

Complete New Hire Forms

- **Form W-4 (Employee's Withholding Certificate):** Have each new employee complete this form to determine federal income tax withholding.
- **Form I-9 (Employment Eligibility Verification):** Both the employee and employer must complete this form, which verifies the employee's identity and work authorization in the U.S.
- **State Tax Withholding Forms:** In addition to federal W-4 forms, some states have their own withholding forms. Check with your state's tax department to see if there are any additional state withholding forms you'll need for your employees.
- **Direct Deposit Authorization:** If you're planning to offer direct deposit AND the employee wants to opt into this payment method, collect their bank information and authorization to set up the deposit.

Register with State Agencies

- Register with your state's Department of Labor for unemployment insurance (SUTA).
- Register with your state's tax department for state income tax withholding.

Secure Workers' Compensation Insurance

Obtain workers' compensation insurance, which is required in most states to cover employees for job-related injuries or illnesses.

Create and Distribute a Restaurant Employee Handbook

- Draft an employee handbook that outlines company policies, compensation details, benefits, and expectations, including payroll details. This is crucial for legal protection and clear communication with your team and can help avoid any payroll-related misunderstandings.
- Distribute the employee handbook to all new employees.

Getting the right restaurant business setup and ensuring you have all the necessary restaurant payroll paperwork on file for your employees is a critical part of restaurant compliance. The paperwork piece

also plays a major role in scaling; making this new hire paperwork a foundational piece of your new employee onboarding takes the guesswork out of compliance, putting you in a position to more effectively grow and scale your business — which, considering 200,000 new jobs are projected to be added to the restaurant industry in 2025, is a real possibility.

Note: While this checklist can be a great jumping off point, legal and paperwork-related payroll requirements may vary by location. If you're unsure of the required restaurant payroll paperwork and/or legal setup in your area, consider seeking professional help from a local accounting or payroll professional. These professionals can offer more specific guidance on how to set up your payroll and ensure compliance across all your restaurant payroll processes.

Step Two

How to Create a Payment Schedule for Your Restaurant

Once you've taken care of the legal setup and paperwork, the next step in the restaurant payroll process is actually creating your restaurant payment schedule, including how and how often you're going to pay your employees.

Common pay schedules — and the pros and cons for restaurants

One of the first payroll-related decisions you'll need to make as a restaurant operator is how often you're going to pay your employees.

There are multiple pay schedules to consider, each of which offers potential benefits or drawbacks for restaurants. Some of the most common pay schedules include:

Weekly pay schedule: 52 pay periods/year

- **Pros:** A weekly pay offers consistent cash flow and is often the preferred payment schedule for employees, which can help increase employee satisfaction and reduce turnover. This pay schedule can also be ideal when turnover does happen, as it allows administrators to quickly process the employee's final payment and remove them from payroll prior to the next pay period.
- **Cons:** Processing payroll creates work for administrators, and the more frequently you process payroll, the more of the work you'll have to navigate. Given that a weekly pay schedule has the most pay periods per year, this pay schedule can create a higher administrative burden for employers.

Bi-Weekly pay schedule: 26 pay periods/year

- **Pros:** A bi-weekly pay schedule can be a happy medium for employees and employers; employees get access to a fairly regular paycheck while employers don't have to take on the burden of processing payroll every week.
- **Cons:** Because months vary in length, with a bi-weekly pay schedule, there are a few months that will have three pay periods within the month, and both employers and employees will need to plan accordingly.

Semi-Monthly Pay Schedule: 24 Pay Periods/Year

- **Pros:** A semi-monthly pay schedule has fixed pay dates (for example, the 15th and last day of the month), which employees may find helpful for budgeting purposes.
- **Cons:** Pay periods in a semi-monthly pay schedule will vary in length, which can make wage and tax calculations more complicated for administrators and lead to uneven paychecks for workers.

Monthly pay schedule: 12 pay periods/year

- **Pros:** A monthly pay schedule offers the lowest administrative burden to employers.
- **Cons:** While a monthly pay schedule means less frequent payroll process for the employer, it also means less frequent paychecks for the employee, and any employees, in particular hourly or lower-wage staff, may struggle with this payment schedule. Plus, some states don't allow monthly pay schedules.

How to pay your employees: Direct deposit

Once you've settled on a payment schedule, the next item to check off your payroll to-do list is figuring out how you're going to pay your employees.

While traditional paper checks are, of course, still an option, as a restaurant operator, offering direct deposit to employees can offer a variety of benefits, including:

- **Increased employee satisfaction.** Many employees enjoy the convenience of getting paid via direct deposit, as it gives them immediate access to funds without having to deposit a check or wait for a check to clear. And anytime you can increase employee satisfaction, it has a positive impact on turnover and tenure, which, again, are major issues in the restaurant industry.
- **Reduced administrative burden.** Creating, printing, and distributing paper checks takes time, energy, and money. Moving to direct deposit reduces both the administrative burden, helping your restaurant save both budget and labor hours.
- **No risk of loss.** Paper checks can easily be lost, which is a huge hassle both for you and your employee. But because direct deposit is automatic and goes directly into the employee's bank account, there's no way the funds can get lost in transit.

Setting up direct deposit requires some work upfront, but that work pays off in the long run by optimizing your payroll processes and saving you time and energy each pay period. If you don't already offer direct deposit to your employees, here are the steps to take to set up this convenient payment option:

1. Choose a payroll provider that offers direct deposit.
2. Connect your restaurant's bank account securely with the payroll system.
3. Collect employees' bank account numbers and routing numbers, along with signed direct deposit authorization forms.
4. Input the information into your payroll system OR have your employee enter their information. (Many systems allow employees to set up and manage their direct deposit information via self-service portals.)
5. Verify accurate setup with a test transaction (when applicable).

Impact of predictive scheduling laws

Another set of regulations to keep in mind when choosing a payment schedule is predictive scheduling laws (also known as fair workweek laws). A growing number of cities and states have enacted what are known as predictive scheduling laws (or fair workweek laws), which require employers to provide their employees' work schedules a certain number of days in advance (for example, 7 or 14 days prior to the workweek).

Depending on the area, predictive scheduling laws may also have additional requirements for employers, like giving employees a certain amount of time off between shifts (known as "right to rest") or offering payment if the employee's shift is changed or cancelled outside of an approved timeframe (known as "predictability pay" or "change pay").

While predictive scheduling laws don't directly dictate how, when, or how often you have to pay

employees, they can definitely have an impact on payroll. For example, if your restaurant is subject to predictive scheduling laws and you cancel multiple employee shifts at the last minute, you may be on the hook for predictability pay — and you’ll need to account for those additional wage premiums when processing payroll for the pay period when the shift was scheduled and cancelled (whether that pay period is a week, a month, or something in between) and include them in your employee’s payment or else face major penalties.

If you live in a city or state with predictive scheduling laws, it’s important to stay informed about the current laws in your jurisdiction, and keep in mind that labor laws often change, so make sure to stay up-to-date on any new and/or changing requirements. If you have questions about how predictive scheduling laws may impact your payment schedule or payroll operations, consider contacting a payroll or accounting professional with experience in your jurisdiction for their insights.

Step Three

Understanding restaurant payroll taxes

Tax laws (and staying compliant with tax laws) are amongst the most non-negotiable laws impacting restaurants — and in order to ensure compliance with relevant tax laws, it’s important to understand the ins and outs of restaurant payroll taxes.

As a restaurant operator and employer, you’re responsible for withholding and paying federal and state taxes (and sometimes local taxes) on restaurant employee wages. These taxes fund critical government programs, like Social Security, Medicaid, and unemployment services, and given the massive payroll restaurants process each year (projected at \$450 billion in 2025), it’s clear that restaurant payroll taxes play a major part in supporting these programs. Keep in mind that, while the cost of the tax will, depending on the situation, fall either to the employer (you, as the restaurant operator, are responsible for the cost) or the employee (the tax is withheld from the employee’s wages), as an employer, you’re responsible for withholding and remitting all of those taxes to the government.

Let’s take a look at the restaurant payroll taxes you’ll need to withhold and pay each pay period:

Tax Type	Brief Description	Category	Responsibility
Federal Income Tax (FIT) Withholding	Tax withheld from an employee’s gross wages to cover their federal income tax liability. The amount is based on the employee’s Form W-4.	Federal Payroll Tax	Employee (paid by the employer from their wages)
FICA Taxes: Social Security*	Funds Social Security benefits for retirees, disabled workers, and survivors.	Federal Payroll Tax	Employer (6.2%) and Employee (6.2%)
FICA Taxes: Medicare*	Funds Medicare, a federal health insurance program for	Federal Payroll Tax	Employer (1.45%) and Employee (1.45%)

Tax Type	Brief Description	Category	Responsibility
	the elderly and disabled.		
Additional Medicare Tax	An additional tax for high-income earners.	Federal Payroll Tax	Employee Only (0.9%)
Federal Unemployment Tax Act (FUTA)	Funds state unemployment benefits through a federal program. (Also known as unemployment taxes.)	Federal Payroll Tax	Employer Only (6.0% on the first \$7,000 of wages. Many employers qualify for tax credits that can reduce their FUTA costs.)
State Unemployment Tax Act (SUTA)	Funds state-specific unemployment benefits. Rates vary widely by state and are assigned by the state's Department of Labor. (Also known as unemployment taxes.)	State Payroll Tax	Employer Only (rate varies by state)
State Income Tax Withholding	Tax withheld from an employee's gross wages to cover their state income tax liability. Not applicable in all states.	State Payroll Tax	Employee (paid by the employer from their wages)
Tip Taxes**	Employers must withhold FICA and federal income taxes from employees' reported tips.	Federal Payroll Tax	Employee (paid by the employer from their reported tips)

**Restaurants with tipped employees may be able to claim a FICA tax credit, which can reduce your overall taxable income. For more information, visit the IRS' website.*

***There are special payroll considerations (including wage and tax considerations) for tipped employees. Employers may also be able to claim a tax credit for certain tipped employees. For more information, see the next section, "Special Considerations for Tipped Employees."*

In addition to the taxes themselves, employers must also complete and submit certain forms reporting wages and taxes to the IRS and other agencies throughout the year. Here are some of the most important federal payroll tax forms you'll need to manage as a restaurant operator, as well as when you'll need to submit each form:

Form Name	Description	Form Submission Responsibility	Due Date
Form 941	The quarterly report of wages paid, federal income tax withheld, and FICA taxes.	Employer to IRS	April 30, July 31, October 31, and January 31
Form 940	The annual report of Federal Unemployment Tax Act (FUTA) taxes.	Employer to IRS	January 31 of the following year
Form W-2	A statement reporting an employee's annual wages and taxes withheld. Copies are given to the employee and filed with the Social Security Administration (SSA).	Employer to Employee and SSA	January 31 of the following year
Form 1099-NEC	Reports nonemployee compensation of \$600 or more to independent contractors.	Employer to Contractor and IRS	January 31 of the following year
Form 8027, Employer's Annual Information Return of Tip Income and Allocated Tips	A form for large food/beverage establishments (10+ employees) where tipping is customary is used to report annual total receipts and tips. If total reported tips are less than 8 percent of gross receipts, employers may need to allocate the difference among employees. (These allocated tips are not taxed.)	Employer to IRS	Last day of February of the following year

Note: While this section provides general information about payroll taxes, it is not financial or legal advice. For more insight into your personal payroll obligations and to ensure compliance with all relevant tax laws, make sure to consult with a tax professional.

Special Considerations for Tipped Employees

As mentioned, there are some special considerations for calculating wages, overtime, and withholdings for tipped employees, which, under the Fair Labor Standards Act (FLSA), are defined as any employees who customarily and regularly receive more than \$30 a month in tips. And because virtually every restaurant has tipped employees on staff, it's important to understand what, exactly, those special considerations are and how they play into your restaurant payroll. Some things to keep in mind when you're managing restaurant payroll for tipped employees include:

Minimum wage requirements and tip credits

Under the FLSA, as a restaurant operator, you are required to pay tipped employees a minimum of \$2.13 per hour in direct cash wages. But, as it's lower than minimum wage requirements, the direct cash wage rate is not the tipped employee's regular rate of pay, which you'll need to know when calculating wages and overtime. As an employer, you can take a "tip credit" to essentially bridge the gap between that direct cash pay rate and federal minimum wage requirements (or state minimum wage requirements, whichever is higher), which, in effect, "credits" them towards your employee's wages.

So, if you pay your employee \$2.13 per hour, you would take the maximum tip credit of \$5.12 per hour, making their regular rate of pay \$7.25, equivalent to the federal minimum wage.

As an employer, there are a few important things you need to know about tip credits, including:

- It can't be more than the actual amount of tips received
- It can't exceed the difference between the applicable minimum wage rate and the direct cash wage rate (even if the employee earned more than that amount in tips)
- The tip credit for regular and overtime hours must be the same
- If the employee doesn't make enough in tips to meet the hourly minimum wage requirement, as the employer, you'll need to make up the difference

Calculating wages and overtime for tipped workers

When calculating wages and overtime for tipped workers, it's important to remember that you don't use their direct cash wage rate (which can be as low as \$2.13 per hour). Instead, you use the rate of pay after factoring in the tip credit, typically the federal minimum wage of \$7.25 per hour, or your state's minimum wage if it's higher.

Let's look at an example. Maria is another server at Sarah's restaurant. Sarah, the owner, pays Maria the direct cash wage of \$2.13 per hour and takes the maximum tip credit of \$5.12 per hour to meet the \$7.25 per hour federal minimum wage requirement. Last week, Maria worked 55 hours, entitling her to 15 hours of overtime pay, and reported \$800 in tips.

Here's how Maria's wages would play out for the week:

- Regular rate of pay: \$7.25 (\$2.13 direct cash wage + \$5.12 tip credit)
- Overtime rate: \$7.25 (regular rate of pay) x 1.5 = \$10.875
- Regular pay: 40 hours x \$7.25 = \$290
- Overtime pay: 15 hours x \$10.875 = \$163.13
- Total weekly pay: \$290 + \$163.13 = \$453.13

While these numbers reflect the total pay for Maria, they do not reflect how much Sarah, as the employer, is responsible for paying in direct cash wages, nor do they take into account all of Maria's tip income. Here's a more detailed breakdown of what those numbers would look like:

- Direct cash wages for regular hours: \$2.13 (direct cash wage) x 40 = \$85.20

- Direct cash wage for overtime hours: \$10.875 (overtime rate) - \$5.12 (tip credit) = \$5.755 per hour
- Direct cash wages for overtime hours: \$5.755 (direct cash wage for OT) x 15 = \$86.33
- Tip credit for regular hours: \$5.12 (tip credit) x 40 = \$204.80
- Tip credit for overtime hours: \$5.12 (tip credit) x 15 = \$76.80
- Employer-paid cash wages: \$85.20 (regular) + \$86.33 (overtime) = \$171.53
- Gross pay: \$171.53 (employer-paid cash wages) + \$800 (tips) = \$971.53

So, Maria's gross pay for the week would be \$971.53 — \$171.53, of which Sarah pays in direct cash wages.

It's also important to highlight that, with \$800 dollars in tips, Maria made an average of \$16.68 per hour (\$800 total tips / 55 hours worked = \$14.55 + \$2.13 cash wages per hour = \$16.68), which meets the federal minimum wage requirements. If Maria hadn't made enough in tips to average the \$7.25 minimum per hour, as the employer, Sarah would be responsible for paying the difference.

Tip pooling and sharing regulations

Pooling (or sharing) tips is a common practice in restaurants. But if you employ this practice in your establishment, it's important to note that only tipped employees (for example, servers and bartenders) are eligible for tip pooling/sharing; employers, managers, and/or supervisors are prohibited from keeping any portion of employee tips.

Service charges vs. tips

Many restaurants tack on a service charge to customer bills when they meet certain criteria (for example, a 25 percent service charge for parties of 8 or more). But it's important to note that, in the eyes of the IRS, a service charge is not the same thing as a tip — even if the cash ultimately ends up going to the server or tipped employee.

Under the FLSA, service charges are considered revenue for your restaurant, not tips. If you distribute these service charges to your tipped employees, they can be used to satisfy minimum wage requirements, but they then also have to be included as compensation when calculating the employees' regular rate of pay.

Dual jobs rule (and how it impacts tip credits)

It's a similarly common practice in restaurants to employ workers that manage a variety of tasks — including tasks that generate tip income (like serving tables) and tasks that don't (like cleaning tasks). If you have employees who manage both tipped and non-tipped tasks, it's important to understand the "Dual Jobs Rule," which prohibits employers from taking a tip credit on non-tipped time under certain circumstances, including:

- If a tipped employee performs duties that are not tip-producing and are not "related to" their tipped occupation, OR
- If they spend a "substantial amount of time" (more than 20% of their workweek or a continuous period of 30 minutes) on non-tipped, related duties.

In these scenarios, you're responsible for paying the employee full minimum wage for any non-tipped hours.

Step Four

How to Choose a Restaurant Payroll System

Clearly, restaurant payroll has a lot of moving parts; there's accurately calculating employee wages (including tips), withholding and paying taxes, processing and distributing payments, calculating total labor costs and labor percentage...the list goes on. And trying to manage all of these moving parts manually can be a recipe for disaster (pun intended!); not only does manual payroll management require a huge amount of time, energy, and labor, but there's also a high risk of errors — errors that could result in non-compliance and serious consequences for your restaurant.

Luckily, you don't have to (nor should you!) manage payroll on your own; there are payroll systems designed specifically for restaurants that offer automated payroll solutions, allowing you to effectively and accurately manage every step of the payroll process with less work and less risk of error.

The right restaurant payroll software can solve a variety of payroll-related issues in your restaurant — and offer serious benefits in the process! — including:

- **Employee onboarding.** As mentioned, in order to legally run payroll, there are certain forms you'll need to collect from every new employee. Restaurant payroll systems often come equipped with automated onboarding functionality, allowing employees to fill out required payroll paperwork directly on the platform. That paperwork is then organized in the employee's payroll file and stored accordingly, with no having to manually print, distribute, collect, or file forms on your end.
- **Time tracking and overtime.** Many restaurant payroll systems integrate directly with your POS. This POS integration allows you to more effectively collect time tracking data (including clock-in and out times, total hours worked, and breaks), integrate it directly with your payroll processes, and automatically calculate wages due (including overtime pay!) to each employee based on relevant federal and state regulations.
- **Tip reporting and management.** Accurately withholding taxes from tipped employees can be a complex process, especially when you're trying to determine withholdings on your own. But automated systems offer a variety of features for more effectively managing tipped employees' wages and withholdings, including tip collection, distribution, and accurate tax reporting for tipped wages, significantly reducing the risk of manual errors and/or compliance issues.
- **Tax compliance and filing.** One of the most important processes restaurant payroll systems automate is tax withholding and filing. Payroll platforms automate tax calculations, initiate tax withholdings, and ensure your restaurant files all federal, state, and local payroll taxes on time, helping you stay compliant and avoid harsh penalties.
- **Access to data.** As your restaurant payroll system manages all of your payroll processes (including time tracking, wage and overtime calculations, and tax withholdings and payments), it's collecting a lot of data — data that you, as a restaurant operator, can use to streamline and optimize your processes and lower data costs. (For example, if, after reviewing your payroll data, you realize you're spending a significant amount on overtime each pay period, you might adjust your schedule to distribute hours more evenly across employees.)

Clearly, the right restaurant payroll system can have a major impact on your payroll processes, making payroll easier, less time-consuming, and more accurate. But not all payroll systems are created equal, and if you want to maximize the benefits, you need to choose the right payroll system for your restaurant.

But what, exactly, does that entail? While the "right" solution may vary based on your needs, generally speaking, things you should evaluate and consider when choosing a restaurant payroll system include:

- **Restaurant-specific features.** While there are many automated payroll platforms on the market, not all are designed specifically for restaurants. Before you commit to a payroll

platform, make sure it offers restaurant-specific features, like automated calculations for tipped employee wages and overtime, or restaurant staff management features.

- **POS integration.** For the best results, you want a payroll system that integrates directly with your POS; that way, the system automatically collects accurate time tracking data from your POS and uses that data to accurately process payroll.
- **Compliance updates.** Compliance, particularly when it comes to tax withholding and payment, is crucial for your restaurant. As such, you want to look for a payroll system that prioritizes compliance, including automatically updating the platform (and the processes and calculations within the platform) whenever new and relevant tax laws and/or labor regulations pass.
- **Ease of use.** Payroll is complex, but your payroll system shouldn't be. The more complicated and confusing the payroll platform, the harder it will be for you and your staff to learn, and the less likely you/they will be to use it. Instead, look for a system that's intuitive, easy to use, and offers robust training materials.
- **Customer support.** In the event that you have an issue with your restaurant payroll system (or even if you just have a question!), you want to make sure you can address that issue or question with a real-live person, which is why choosing a platform with a quality customer support program is a must.
- **Reporting and analytics.** As mentioned, payroll systems collect a lot of data that could be useful to your restaurant. But in order to make use of it, you need to not only be able to access said data, but also access it in a way that's easy to understand and connect back to your business priorities. That's why, when choosing a restaurant payroll system, it's important to look for a platform with reporting and analytics features. These features will allow you to both access and understand your restaurant's unique data points — and use those data points to improve operations and/or lower costs.
- **Scalability.** A payroll system that's ideal for 10 employees in a single location may not be the right fit for a restaurant with 100 (or 1000!) employees across multiple locations. If you have plans to grow your restaurant, make sure to choose a payroll system that can easily grow with you as you add employees and/or locations.

Step Five

How to Calculate Gross Pay, Net Pay, and Labor Costs

Obviously, compensation plays a major role in restaurant payroll. But not all compensation is created equal; there are different ways to calculate employee compensation and labor costs, and in order to effectively and accurately process payroll, you need to understand the formulas and calculations for each.

Let's take a look at three key compensation categories you'll need to know for your restaurant payroll operations (and how to calculate them!): gross pay, net pay, and labor costs:

Calculating Gross Pay

Gross pay is the total amount an employee earns before any taxes or deductions are withheld. Gross pay includes any and all types of compensation for their work, including regular wages, overtime calculation, tips, bonuses, and any other type of compensation.

The formulas for calculating gross pay each pay period are as follows:

- **For hourly employees:** Gross pay = (Regular hours x regular rate of pay) + (overtime hours x

- overtime rate) + any additional compensation (if applicable)
- **For hourly tipped employees:** Gross pay = (Regular hours x regular rate of pay) + (overtime hours x overtime rate) + tips + any additional compensation (if applicable)
- **For salaried employees:** Gross pay = (Annual salary / number of pay periods per year) + any additional compensation (if applicable)

Let's take a look at a few examples of how calculating gross pay might look in a restaurant:

Gross Pay Example 1: Christian, Server at Sarah's Restaurant, Hourly and Tipped

Christian is a server at Sarah's Restaurant who gets paid on a weekly basis. This week, Christian worked 40 hours. As a tipped employee, Christian's direct wage is \$2.13 per hour, and he made \$750 in direct tips from customers (which is enough to push him well past the FLSA minimum wage threshold). Christian did not receive any other type of compensation this pay period.

Here's how to calculate Christian's gross pay for the week:

Gross pay: $(40 \text{ hours} \times \$2.13) + \$750 = \835.20

Gross Pay Example 2: Monica, Line Cook at Sarah's Restaurant, Hourly

Monica is a line cook at Sarah's Restaurant who gets paid on a weekly basis at \$18 per hour. This week, Monica worked 45 hours, and as a non-exempt employee, under current overtime laws, she is entitled to an overtime rate of 1.5 times her regular rate of pay for any hours worked above 40 in the weekly pay period. Monica also received a one-time bonus of \$150 for winning a restaurant-wide recipe development contest.

Calculating Monica's gross pay for the week would look like this:

- Regular rate of pay: \$18
- Overtime rate: $\$18 \times 1.5 = \27
- Gross pay: $(\$18 \times 40 = \$720) + (\$27 \times 5 = \$135) + \$150 \text{ bonus} = \1005

Calculating Net Pay

As mentioned, gross pay is the employee's total compensation without any withholdings. But the employee doesn't walk away with their gross pay. When they get their paycheck or direct deposit, it will reflect their net pay (also known as "take-home pay"), which is the employee's total compensation minus all relevant deductions. Some deductions are mandatory for all employees, like federal income tax, state or local income tax (when applicable), and employee-paid FICA taxes, while others will vary by employee and restaurant (like health insurance premiums, retirement contributions, or wage garnishments).

The formula for calculating net pay for each pay period reads as follows:

Net pay = Gross Pay - (Federal Income Tax + State Income Tax + FICA Taxes + Local Taxes + Other Deductions)

Let's look at some examples of calculating net pay for restaurant employees, using the gross pay examples outlined above:

Net Pay Example 1: Christian, Server at Sarah's Restaurant, Hourly and Tipped

As mentioned above, Christian's gross pay for the weekly pay period was \$835.20. Based on his filing status, Christian falls under the 12 percent federal income tax (FIT) bracket. He lives and works at Sarah's Restaurant located in Washington State, which doesn't have local or state personal income tax. Like all employees, he is also subject to 6.2 percent FICA taxes. Christian doesn't have any additional deductions from his wages.

Christian's net pay for the week would be:

- Federal income tax: $\$835.20 \times .12 = \100.22
- FICA taxes: $\$835.20 \times .062 = \51.78
- Net pay = $\$835.20 \text{ (gross pay)} - \$100.22 \text{ (FIT)} - \$51.78 \text{ (FICA taxes)} = \683.20

Net Pay Example 2: Monica, Line Cook at Sarah's Restaurant, Hourly

Monica's gross pay for the pay period was \$1005. Based on her filing status, Monica also falls under the 12 percent federal income tax bracket. Monica lives and works at Sarah's Restaurant located in Oregon, where she is taxed at a rate of 8.75 percent for state income tax (SIT). Like all employees, she is subject to 6.2 percent FICA taxes. Monica gets health insurance through the restaurant, and as such, her health insurance premiums (which run \$150 per weekly pay period) are also deducted from each paycheck.

Monica's net pay would be calculated as follows:

- Federal income tax: $\$1005 \times .12 = \120.60
- State income tax: $\$1005 \times .0875 = \87.94
- FICA taxes: $\$1005 \times .062 = \62.30
- Net pay: $\$1005$ (gross pay) - $\$120.60$ (FIT) - $\$87.94$ (OR SIT) - $\$62.30$ (FICA taxes) - $\$150$ (health insurance premium) = $\$584.16$

Note: While these examples offer general gross pay, net pay, and withholding calculations, actual tax liabilities and withholdings may vary. For more detailed information on federal tax withholding requirements, visit the IRS Publication 15 (2025), (Circular E), Employer's Tax Guide. For more information on state tax withholding requirements, visit your state's Department of Revenue or tax agency website.

Calculating total labor costs and labor cost percentage

Calculating your employees' gross and net pay lets you know how much they earned during the pay period (gross pay), how much you'll need to withhold and pay in taxes and deductions, and how much they'll ultimately be taking home in their paycheck (net pay). But what calculating gross and net pay doesn't tell you is the true labor cost for each employee.

The total labor cost is the true cost of an employee to your restaurant, including all employer-paid taxes, benefits, and other related expenses. Understanding your total labor cost is an absolute must, as it can help you more effectively budget, manage your restaurant's revenue, and increase profitability.

The total restaurant labor cost calculation formula is as follows:

Total labor cost = Gross wages + Employer-paid payroll taxes (FICA, FUTA, SUTA) + Benefits (health insurance, retirement contributions, etc.) + Workers' compensation premiums + Other labor-related expenses (if applicable)

While you can calculate the total labor cost for a specific employee, that would be extremely time-consuming. Plus, it's generally unnecessary. Your restaurant payroll system should be able to provide this data for the entirety of your employee roster, allowing you to calculate and understand total labor costs across your restaurant staff.

In addition to total labor cost, another important metric you'll want to understand for your restaurant is your labor cost percentage. Labor cost percentage shows how much of your total revenue you're spending on labor, and plays a major role in your restaurant's financial health, success, and profitability. (While actual labor cost percentage will vary based on a variety of factors — including restaurant type, location, and age — industry standards consider between 28 and 33 percent a healthy labor cost percentage.)

The formula for calculating labor cost percentage is as follows:

Labor cost percentage = (Total labor costs / Total revenue) x 100

Total Labor Cost/Labor Cost Percentage Example: Sarah's Restaurant

Let's imagine Sarah's Restaurant has a team of 20 employees, and the owner, Sarah, wants to calculate total labor costs for the month. Sarah runs a report through her restaurant payroll system and gets back the following numbers:

- Gross wages for all 20 employees (including regular pay, overtime, and reported tips): \$45,000
- Employer payroll taxes (which cover FUTA, SUTA, and the employer's share of FICA taxes): \$3450

- Health insurance premiums (employer contributions): \$2500
- Retirement contributions (employer match): \$1000
- Workers' compensation premium: \$800
- Other labor-related expenses (training, uniforms, etc.): \$250

To calculate total labor costs, Sarah would simply add all of these numbers:

Total labor costs = \$45,000 + \$3450 + \$2500 + \$1000 + \$800 + \$250 = \$53,000

Now, let's say the total revenue for Sarah's Restaurant was \$165,000. To calculate labor cost percentage, Sarah would simply divide the total monthly labor cost (\$53,000) by the restaurant's total monthly revenue (\$165,000) and multiply by 100:

Labor cost percentage = (\$53,000 / \$165,000) x 100 = 32.12

So, Sarah's labor cost percentage is 32.12 percent, which is right within the ideal range of 28 and 33 percent, meaning that Sarah is efficiently managing her labor costs in relation to her revenue.

Step Six

How Long to Keep Payroll Records and Conduct Proper Documentation

Alongside other types of restaurant documentation (like employee handbooks or restaurant employee management training materials), payroll records play an important role in restaurant compliance. Payroll retention — or, in other words, keeping accurate, up-to-date, and secure payroll records — is important for a few reasons, including:

- **Compliance.** Your payroll documentation acts as compliance records, proving that you've been compliant with all relevant federal, state, and local wage and hour laws.
- **Audit protection.** Maintaining accurate records can also offer legal protection should your restaurant ever find itself dealing with an IRS or Department of Labor audit.
- **Litigation protection.** If an employee were to sue you for wage or labor violations, having a complete and accurate payroll history (along with all the related documentation) can prove you were compliant and in the right, and help you avoid legal action and penalties.
- **Security.** Payroll documentation is full of personal, sensitive information, including contact information, Social Security Numbers (SSNs), and banking details. Maintaining payroll documentation on a secure restaurant payroll platform ensures that sensitive Personally Identifiable Information (PII) contained within payroll records is securely stored and protected.

Clearly, maintaining payroll records is important. But as a restaurant operator, what records do you have to keep — and how long do you have to keep them?

As an employer, you'll need to comply with payroll recordkeeping requirements from both the IRS and the U.S. Department of Labor Wage and Hour Division/FLSA. These requirements include:

U.S. Department of Labor Wage and Hour Division/FLSA Recordkeeping Requirements:

- **Employee information.** This includes the employee's full name, SSN, address, occupation, date of birth (if younger than 19), and sex.
- **Hours worked.** Employee payroll records should clearly show the time and day of the week the workweek begins, total hours worked each day, and the total hours worked each workweek. Records should also show time-related details like start time, end time, and any recorded breaks. (There is no universal timekeeping method; as an employer, you can track and record time however you wish, as long as it's accurate and complete.)
- **Wages and deductions.** In addition to hours worked, employee payroll records should also

include documentation outlining their wages and deductions for each pay period, including the basis on which the employee's wages are paid (for example, \$10 per hour or \$500 per week), the regular hourly pay rate, total straight-time earnings (daily and weekly), total weekly overtime earnings, any additions to or deductions from the employee's wages, total wages paid per pay period, and both the date of the payment and the pay period covered by the pay period.

- **Additional documentation as applicable.** Depending on your restaurant and employees, you may also need to keep additional documents on file, like any collective bargaining agreements.

Retention Requirements:

The U.S. Department of Labor Wage and Hour Division/FLSA requires employers to keep general payroll records and collective bargaining agreements for no less than three years. You'll also need to keep records on which wage computations are based (like time cards, work schedules, and records of wage additions or deductions) for at least two years.

IRS Recordkeeping Requirements:

- Employee identification number (EIN)
- Amounts and dates of all wage, annuity, and pension payments
- Amounts of employee-reported tips
- Record of all allocated tips
- Fair market value of in-kind wages paid
- Employee information (including names, addresses, social security numbers, and occupations)
- Any employee copies of Form W-2 and/or W-2c returned as undeliverable
- Each employee's dates of employment
- Periods for which employees and recipients were paid while absent due to sickness or injury and the amount and weekly rate of payments made to the employee (by you and/or any third-party payers)
- Copies of employees' and recipients' income tax withholding certificates (including forms W-4, W-4P, W-4S, and W-4V)
- Dates and amounts of tax deposits you made
- Acknowledgment numbers for all deposits made via the Electronic Federal Tax Payment System (EFTPS)
- Copies of all filed returns
- Confirmation numbers for all filed returns
- Records of fringe benefits and expenses reimbursements provided to your employees (including any substantiating documentation)
- Substantiating documentation for any credits claimed, including records related to qualified sick leave wages and qualified family leave wages for leave taken after March 31, 2021 and/or records related to qualified wages for the employee retention credit paid after June 30, 2021
- Documentation to substantiate the amount of any employer or employee share of social security tax that you deferred and paid for in 2020

Retention Requirements:

The IRS requires retention requirements as follows:

- Keep employment tax records for at least four years after the tax becomes due or is paid — whichever is later
- If you file a claim for credit or refund after filing a return, keep records for at least three years from the date you filed your original return or two years from the date you paid the tax, whichever is later
- If you don't report income that you should report — and that income is more than 25% of the gross income shown on your return — keep records for at least six years
- Keep records related to qualified sick leave wages and qualified family leave wages for leave

taken after March 31, 2021, and records related to qualified wages for the employee retention credit paid after June 30, 2021, for at least six years

- If you do not file a return and/or file a fraudulent return, keep records indefinitely

Recordkeeping best practices for restaurants

At the bare minimum, as a restaurant, you need to comply with all the above-listed paperwork/documentation and retention requirements. But if the bare minimum doesn't feel like enough, here are some best practices to keep in mind for your recordkeeping processes:

- **Consider indefinite retention.** Recordkeeping requirements dictate that you keep certain types of payroll records for specific lengths of time (for example, four years for employment tax records under the IRS or three years for general payroll records under the FLSA). But those regulations can change, and if you want to be sure you have the documentation you need on file if and when you need it, consider keeping your payroll records indefinitely. This will ensure you have ongoing access to all of your payroll information, documents, and records — and you never know when you might need that access.
- **Regularly audit your payroll records.** Just maintaining your payroll records isn't enough; you also need those records to be complete and accurate for every employee and pay period. But the truth is, it can be easy for mistakes or errors to slip through the cracks, especially when you're talking about huge sets of documents and forms, like payroll records, which is why, if you want to ensure accuracy and compliance, you should consider regular audits of your payroll records. By periodically auditing your records, confirming the accuracy of the information, and correcting any mistakes, you're taking a proactive approach to recordkeeping — and if you ever find yourself in a situation where you need to provide those records (for example, an IRS audit or labor-related lawsuit), you can rest easy knowing your records are accurate, complete, and up-to-date.
- **Leverage technology for effective, accurate, and easy recordkeeping.** Trying to manually maintain payroll records is a monumental job. But luckily, you don't need to maintain these records manually — you can leverage technology to make the recordkeeping process easier, more effective and accurate, and less time-consuming. Most modern restaurant payroll platforms automatically manage digital recordkeeping, ensuring that all records are stored securely, compliantly, and in an organized way, making it easier to meet retention requirements and access payroll records when you need them.

Conclusion

Wrapping up: Efficient restaurant payroll operations are key to success

Effective payroll processes are an integral part of restaurant operations. And now that you understand both basic and advanced restaurant payroll concepts, you're armed with the information you need to develop an effective approach to payroll, increase payroll efficiency, and ensure your payroll processes (including wage calculations, tax deductions and payments, employee payments, and recordkeeping practices) are both accurate and compliant.

As you're applying this information to your own establishment, be sure to keep these restaurant payroll best practices in mind:

- **Keep your employees in mind.** Because they're directly tied to their paychecks, your payroll

practices and processes will matter to your employees, so make sure you're keeping them front of mind as you develop those practices and processes. For example, opt for a payment schedule that gets cash in your employees' hands more frequently (like a weekly or bi-weekly schedule) and/or set up direct deposit, which offers faster access to their wages.

- **Prioritize accuracy and compliance.** Accuracy and compliance are both critical parts of effective restaurant payroll management. Make sure that, as you navigate your restaurant's payroll processes, you're doing so in compliance with all applicable local, state, and federal laws — and that all of your numbers, whether that's wage calculations or tip withholdings or tax or employee payments, are accurate.
- **Invest in the right technology.** Restaurant payroll can be extremely complex. But with the right payroll system, it doesn't have to be! Payroll platforms can automate every step of your payroll process, significantly reducing the time and energy needed to process payroll while also reducing the risk of errors or miscalculations. Look for payroll systems designed specifically for restaurants, which generally come equipped with features (like POS integration) that can simplify not only managing your payroll, but also managing your staff and your restaurant.
- **Keep meticulous records.** As an employer, you're required to keep accurate payroll records — and keep them on file for a set amount of time (ranging from two years to indefinitely). So, prioritize accurate, organized, and complete recordkeeping practices from the get-go; it can save you significant time, energy, and hassle down the road.

Mastering restaurant payroll can offer a variety of benefits, both to your restaurant (like increased compliance, reduced churn, and/or lower labor costs) and to your employees (like more accurate and timely payment). And by reading this guide, you've taken the first step towards mastery — and all the benefits that come with it.

For more information on how to navigate restaurant payroll and set up compliant payroll processes that benefit your restaurant and your employees, contact an experienced payroll, accounting, or tax specialist and/or visit the IRS' small business tax resource page.

Instructions

Currently, [this guide](#) lives as a resource page in our outdated CMS. Unlike the POS guide, it is *not* earning organic visibility. The URL currently ranks for zero keywords in the US. So this one is less about capitalizing on existing rankings and more about claiming a category we should already own: Toast offers payroll, and yet we do not appear anywhere in the top 10 for “restaurant payroll.”

We want to republish this as an updated On The Line article at **[/blog/on-the-line/restaurant-payroll](#)** and redirect the existing resource URL to the new article.

This is an important piece because it should serve as the comprehensive, operator-facing resource on how restaurant payroll actually works — the paperwork, the pay schedules, the taxes, the tipped-employee math, and the recordkeeping.

The goal is to make this the go-to educational resource on the topic while establishing [Toast’s Payroll page](#) as the primary pillar page. Throughout the article, we should naturally link to relevant Toast products and core site pages wherever they help readers learn more.

The draft below is the current version. Much of the structure is solid, but it is written as a linear six-step guide rather than as something search engines and LLMs can extract from. Rather than simply refreshing the existing copy, I recommend using it as a structural template and checklist for the topics we should cover, then rewriting and reorganizing the article based on current SEO/AEO best practices.

A few guidelines as you work:

- **Replace the “Step One / Step Two” chapter structure with SEO- and AEO-driven headings.** The People Also Ask box on this SERP is telling us exactly what to answer: “How to do payroll for a restaurant?”, “What should payroll be for a restaurant?”, “How do restaurants pay their employees?”, “What is the 30/30/30 rule for restaurants?” Make headings and sections directly answer those queries. Note that we do not currently cover the 30/30/30 rule anywhere in this draft, but we should.
- **Prioritize comprehensiveness and usefulness.** This should cover everything an operator reasonably needs to understand about running payroll in a restaurant: required paperwork, pay schedules, payroll taxes, tipped-employee wage math, choosing a system, calculating gross/net pay and labor cost, and recordkeeping.
- **Lead with the tipped-employee math.** It is the hardest, highest-anxiety part of restaurant payroll and the part generalist payroll vendors (Gusto, Paychex, Rippling) cover thinly. The tip credit, tipped overtime, the dual jobs rule, tip pooling, and service charges vs. tips are where a restaurant-native brand should obviously outrank a horizontal one. The worked examples already in this draft (Maria, Christian, Monica) are genuinely good — keep them, expand them, and make each one independently extractable.
- **Link back to Toast’s core pages wherever relevant.** When in doubt, run a site search. Note that we already have [/blog/on-the-line/restaurant-payroll-percentage](#) ranking #6 for “restaurant payroll percentage” — this new article should link to it rather than compete with it, so keep labor-cost-percentage coverage here summary-level and point deeper coverage there.
- **Prioritize Toast data over external sources.** Whenever we have proprietary research that can support a point, use that before looking for third-party statistics. Many of our reports [live here](#), and the [Voice of the Restaurant Industry 2026 report](#) is one of our most recent and useful

sources. Several stats in the current draft are dated to 2025 and should be refreshed or replaced with Toast data.

- **Verify every wage, tax, and threshold figure before publishing.** This draft cites the \$2.13 federal cash wage, the \$5.12 maximum tip credit, the \$7.25 federal minimum, FUTA at 6.0% on the first \$7,000, and the 20%/30-minute dual jobs thresholds. Tipped-wage rules and the 80/20 guidance have been litigated repeatedly — confirm current federal rules and flag anything in flux. Keep the existing legal disclaimers. If you're unsure of any information or claims feel free to comment/tag me in to flag.
- **Reformat the content wherever it improves readability or answerability.** Use bullets, numbered steps, FAQs, definitions, and other structures when they make information easier to understand. Add an FAQ block mapped to the PAA questions.
- **Lean into tables — this topic is unusually well suited to them.** The payroll tax table and the IRS forms/due dates table in the current draft are the strongest assets in the piece and are exactly the kind of structured content LLMs surface and cite. Consider adding tables for: pay schedule comparison (currently prose bullets), tipped vs. non-tipped wage calculation side by side, and recordkeeping retention periods by agency (currently a long list).
- **Write for both search engines and LLMs without sacrificing the reader.** Provide clear, direct answers upfront, then expand with additional context. The goal is to make sections easy to extract and cite while still creating a genuinely useful resource for restaurant operators.
- **Don't feel like you need to go quote for quote, but we do have some legally approved testimonials and power stats available** if you want operator voice in here.

SEO elements

URL: Will be <https://pos.toasttab.com/blog/on-the-line/restaurant-payroll> (redirect from <https://pos.toasttab.com/resources/restaurant-payroll>)

Primary Term: restaurant payroll (350 MSV, 0 KD)

Secondary terms: payroll for restaurants (600 MSV, 2 KD) · restaurant payroll software (450 MSV, 0 KD) · restaurant payroll services (250 MSV, 1 KD) · restaurant payroll management (200 MSV, 0 KD) · restaurant payroll taxes (150 MSV, 0 KD) · payroll for restaurant employees (150 MSV, 2 KD) · tip credit (700 MSV, 0 KD, 1,600 traffic potential) · how to do restaurant payroll (70 MSV).

Meta Title: Restaurant Payroll: The Complete Guide for Operators | Toast POS

Short Description: Restaurant payroll plays by its own rules — tip credits, tipped overtime, the dual jobs rule, and taxes most payroll guides skip. Here's how to run it accurately, step by step, from new-hire paperwork to your last recordkeeping requirement.

Meta Description: How to run restaurant payroll: required paperwork, pay schedules, payroll taxes, tip credits and tipped overtime, plus how to calculate gross pay, net pay, and labor cost.

Current AI Overview: Restaurant payroll involves calculating wages, managing tips, withholding taxes, and tracking overtime for hourly and tipped staff. [1, 2]

SERP Analysis: No Toast page ranks in the top 10 for “restaurant payroll,” and the current /resources/restaurant-payroll URL ranks for zero keywords in the US. The top 10 splits into two groups. First, generalist payroll vendors running thin industry landing pages: Restaurant365 (#1, DR 73, ~8 monthly visits to that page), Paychex (#3, DR 81), Gusto (#6, DR 86), and Kore1 (#10, DR 52). These pages rank on domain authority rather than content depth — they are product pages wearing a keyword, and several pull almost no traffic. Second, actual editorial content: Sling's “Restaurant Payroll: The Ultimate Guide For Business Owners” (#4), Workstream's “Best Payroll Software for Restaurants” (#5), OnPay's “Restaurant payroll: How to handle tips, taxes, and overtime” (#7), and Rippling's “Payroll for Restaurants: 9 Essential Tools [2026]” (#9). Backlink profiles across the page are

notably weak — Rippling’s ranking page has 2 referring domains, Workstream’s has 9 — so this is winnable on content quality rather than authority. Keyword difficulty across the entire cluster sits at 0–3.

Opportunity: Every page ranking here is a payroll company writing about restaurants. Toast is a restaurant company that happens to offer payroll, and that inversion is the whole moat. Rather than writing generic statements like *Restaurants need to withhold taxes on reported tips*, Toast can say, essentially: *Here’s the tipped overtime calculation most operators get wrong, here’s what it costs when you get it wrong, here’s what restaurant operators told us about labor in 2026, and here’s how a POS-integrated payroll system prevents the error in the first place*. The existing worked examples in this draft are already doing this better than anything on page one, they just need to be surfaced with extractable headings instead of buried inside “Step Three.” The specific content gaps to attack: tipped overtime math (nobody on page one shows the calculation), the dual jobs / 80-20 rule, service charges vs. tips, predictive scheduling’s payroll impact, and the recordkeeping retention table. Also worth noting that the informational cluster (“restaurant payroll,” “how to do restaurant payroll,” “restaurant payroll taxes”) and the commercial cluster (“restaurant payroll software,” “restaurant payroll services,” “best restaurant payroll software”) overlap heavily in this SERP — an editorial piece that answers the informational intent well can reasonably capture commercial traffic too, which is why linking cleanly down to the Payroll product page matters.

Primary MEL Play: Restaurant Labor Cost Calculator (hero), Restaurant Profit Margin Calculator, Restaurant Training Manual Template, Restaurant Opening Checklist, Tip Pooling, New Hire Onboarding Checklist

Product Mention: Toast Payroll & Team Management is the primary product mention

Pillar Page: <https://pos.toasttab.com/products/payroll>

FROM TESSA

This is an important piece because it should serve as the comprehensive, operator-facing resource on how restaurant payroll actually works.

New URL: <https://pos.toasttab.com/blog/on-the-line/restaurant-payroll>

Meta Title: Restaurant Payroll: The Complete Guide for Operators | Toast POS

Primary pillar page: <https://pos.toasttab.com/products/payroll>

Product Mention: Toast Payroll & Team Management is the primary product mention

Short Description: Restaurant payroll plays by its own rules — tip credits, tipped overtime, the dual jobs rule, and taxes most payroll guides skip. Here's how to run it accurately, step by step, from new-hire paperwork to your last recordkeeping requirement.

Meta Description: How to run restaurant payroll: required paperwork, pay schedules, payroll taxes, tip credits and tipped overtime, plus how to calculate gross pay, net pay, and labor cost.

Current AI Overview: Restaurant payroll involves calculating wages, managing tips, withholding taxes, and tracking overtime for hourly and tipped staff. [1, 2]

- <https://onpay.com/insights/restaurant-payroll-guide/>
- <https://www.rippling.com/blog/payroll-for-restaurants>

Primary Term: restaurant payroll (350 MSV, 0 KD)

Secondary terms:

- payroll for restaurants (600 MSV, 2 KD)
- restaurant payroll software (450 MSV, 0 KD)
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- payroll for restaurant employees (150 MSV, 2 KD)
- tip credit (700 MSV, 0 KD, 1,600 traffic potential)
- how to do restaurant payroll (70 MSV)
- **Informational / commercial clusters:**

- restaurant payroll
- how to do restaurant payroll
- restaurant payroll taxes
- **Commercial cluster:**
 - restaurant payroll software
 - restaurant payroll services
 - best restaurant payroll software

SERP competitive analysis:

- These pages **rank on domain authority rather than content depth** — they are product pages wearing a keyword, and several pull almost no traffic.
- **Backlink profiles across the page are notably weak** — Rippling's ranking page has 2 referring domains, Workstream's has 9 — so **this is winnable on content quality rather than authority.**

Primary MEL Play:

- ☒ Restaurant Labor Cost Calculator (hero),
- ☒ Restaurant Profit Margin Calculator,
- ☒ Restaurant Training Manual Template,
- ☒ Restaurant Opening Checklist,
- ☒ Tip Pooling,
- ☒ New Hire Onboarding Checklist

People also ask

- ☒ How to do payroll for a restaurant
- ☒ What should payroll be for a restaurant
- ☒ How do restaurants pay their employees
- ☒ What is the 30/30/30 rules for restaurants

Messaging + positioning:

- **Toast is a restaurant company that happens to offer payroll, and that inversion is the whole moat.** Every page ranking here is a payroll company writing about restaurants.
- This one is less about capitalizing on existing rankings and more **about claiming a category we should already own**: Toast offers payroll, and yet we do not appear anywhere in the top 10 for “restaurant payroll.”
- Say this, not that:
 - **Don’t say:** Generic statements like “Restaurants need to withhold taxes on reported tips,”
 - **DO SAY:** Specific, detailed language that makes it obvious Toast is an industry native and insider: “Here’s the tipped overtime calculation most operators get wrong, here’s what it costs when you get it wrong, here’s what restaurant operators told us about labor in 2026, and here’s how a POS-integrated payroll system prevents the error in the first place.”

OTHER GUIDELINES

Verify every wage, tax, and threshold figure before publishing. This draft cites the \$2.13 federal cash wage, the \$5.12 maximum tip credit, the \$7.25 federal minimum, FUTA at 6.0% on the first \$7,000, and the 20%/30-minute dual jobs thresholds. **Tipped-wage rules and the 80/20 guidance have been litigated repeatedly — confirm current federal rules and flag anything in flux. Keep the existing legal disclaimers.** If you’re unsure of any information or claims feel free to comment/tag me in to flag.

Lean into tables — this topic is unusually well suited to them. The payroll tax table and the IRS forms/due dates table in the current draft are the strongest assets in the piece and are exactly the kind of structured content LLMs surface and cite. Consider adding tables for: pay schedule comparison (currently prose bullets), tipped vs. non-tipped wage calculation side by side, and recordkeeping retention periods by agency (currently a long list).

When reviewing the original article: “I recommend using it as a structural template and checklist for the topics we should cover, then rewriting and reorganizing the article based on current SEO/AEO best practices.”

OUTLINE

Restaurant Payroll: The Complete Guide for Operators

Green: specific content gaps to attack (from Tessa)

[Restaurant Payroll: The Complete Guide for Operators](#)

[What is restaurant payroll?](#)

[Wages and salaries](#)

[Tip management](#)

[Tip credits](#)

[Overtime and multi-rate shifts](#)

[Payroll taxes and withholdings](#)

[Why payroll for restaurants is harder than other industries](#)

[Tipped employee payroll: tip credits, tipped overtime, and the dual jobs rule](#)

[Components of tipped employee payroll](#)

[Tipped vs. non-tipped wage calculation](#)

[Example: how to calculate a tipped server's weekly pay](#)

[What is a tip credit? \[KW: tip credit\]](#)

[What happens when tips don't cover minimum wage](#)

[How to calculate tipped overtime \(the mistake most operators make\)](#)

[Example: tipped overtime, calculated correctly](#)

[The dual jobs rule \(80/20 rule\)](#)

[Example: one employee, two roles, one pay period](#)

[Tip pooling rules](#)

[Service charges vs. tips](#)

[How "No Tax on Tips" changes tipped payroll reporting in 2026](#)

[State and local tip credit rules](#)

[Restaurant payroll laws and regulations](#)

[Fair Labor Standards Act \(FLSA\) \(federal\)](#)

["No Tax on Tips" \(federal\)](#)

[State and local laws](#)

[Tip pooling](#)

[How to set up restaurant payroll: paperwork checklist](#)

[How to choose a restaurant pay schedule](#)

[How predictive schedule affects payroll](#)

[How to do payroll for a restaurant: step-by-step \[PAA\] \[KW: how to do restaurant payroll\]](#)

[How to calculate gross pay](#)

[How to calculate net pay](#)

[Restaurant payroll taxes \[KW: restaurant payroll taxes\]](#)

[State and federal payroll taxes you need to withhold \(updated tax table\)](#)

[Federal payroll tax forms and due dates \(updated forms table\)](#)

[Taxes on tips \(withholding on reported tips, the FICA tip credit, Form 8027\)](#)

[Restaurant payroll recordkeeping: how long to keep records](#)

[What should payroll be for a restaurant? \[PAA\]](#)

[Labor cost as a percentage of sales](#)

[How to calculate restaurant labor cost](#)

[What is the 30-30-30 rule for restaurants? \[PAA\]](#)

[Restaurant payroll software \[KW: restaurant payroll software, best restaurant payroll software, restaurant payroll services\]](#)

[What to look for](#)

[FAQs about restaurant payroll](#)

[How do restaurants pay their employees?](#)

Introduction

- Use "restaurant payroll" in the first sentence.

Key takeaways section

What is restaurant payroll?

Intro “key components of payroll include...”

Wages and salaries

- Some employees are hourly, others are salaried
- Calculating gross wages (wages together: hourly, overtime, tips, and salaried)
- Disbursement (creating a system for paying your employees)

Tip management

- Track and report tips, then apply [FICA taxes](#) (Federal Insurance Contributions Act — funds

Social Security and Medicare by percentage of each paycheck going towards both)

- Tips across cash, credit card, online, apps, etc.

Tip credits

- When employer pays lower wage to a tipped employee, so long as the tips make up the difference so the employee still earns minimum wage
- Lowest wage allowed under federal regulations: \$2.13/hour (your state might have a higher limit)
- *Link to the tipped section below for more info*

Overtime and multi-rate shifts

- Some employees might move between jobs and pay rates (or tip types) in a single pay period.

Payroll taxes and withholdings

- Social Security and Medicare taxes
- Mandatory local, state, and federal withholdings on income tax

Why payroll for restaurants is harder than other industries

- Tipped employees for restaurants
 - Come with unique wage and tax considerations (like tip credits... we'll go into these later)
 - A lot of staff are eligible for tips, so this is a big one
- Diverse workforce for restaurants
 - Restaurants have lots of different categories of employees (servers, bartenders, chefs, hosts, managers)
 - Together, they're a mix of hourly, tipped, salaried, full- and part-time
 - Each has unique payroll requirements and tax implications
- High turnover for restaurants
 - Setting up payroll for all the above is time-intensive (which no one in the industry actually has: free time or time to waste)
 - Time loss is compounded when turnover is high, you've finally set up payroll and now they've left

- Labor cost ratios against thin margins
 - It's important to monitor your total labor cost against sales, being mindful of thin profit margins usually seen in restaurant industry
- Miscalculating can mean you're having to pay back wages you hadn't accounted for
 - This one's not specific to restaurant industry

Tipped employee payroll: tip credits, tipped overtime, and the dual jobs rule

Intro — what to keep in mind about all the above.

We'll get into the details of payroll later in the article: how to run it day-to-day, how to calculate tax withholdings, and other things to keep in mind to stay compliant. But first let's take a look at one of the most important — and unique — parts of restaurant payroll: tipped employee payroll.

[Give another 2-3 sentences about why tipped employee payroll is so important to get right: what it entails or what goes into it, and why it's important to understand this part before digging into the rest of payroll.]

Components of tipped employee payroll

Tipped vs. non-tipped wage calculation

Use a table here, comparing side by side; no one on page one shows this calculation

- The same hours and week for a server and a line cook.
- Rows are
 - cash wage
 - tip credit
 - tips
 - gross pay
 - overtime rate

Example: how to calculate a tipped server's weekly pay

Use mAria, Christian, or Monica example here (or 2)

A one-line scenario.

An inputs table with the rate, hours, tips, and state.

The numbered calculation.

The result.

The common mistake.

What is a tip credit? [KW: tip credit]

Include the \$2.13 cash wage, the \$5.12 maximum credit, and the \$7.25 minimum, plus a note on states that ban tip credits.

Cover the federal figures, the \$30/month tips threshold, and a pointer that states can override them.

What happens when tips don't cover minimum wage

New example to add here, when they don't cover and the employer needs to top-up

How to calculate tipped overtime (the mistake most operators make)

Here's the formula

"Here's the tipped overtime calculation most operators get wrong,"

"Here's what it costs when you get it wrong, "

"Here's how a POS-integrated payroll system prevents the error in the first place."

Example: tipped overtime, calculated correctly

A one-line scenario.

An inputs table with the rate, hours, tips, and state.

The numbered calculation.

The result.

The common mistake.

The dual jobs rule (80/20 rule)

If a tipped employee spends more than 30% of their workweek doing non-tipped work (cleaning silverware, for example), the employer has to pay the full minimum wage for that time.

Example: one employee, two roles, one pay period

A one-line scenario.

An inputs table with the rate, hours, tips, and state.

The numbered calculation.

The result.

The common mistake.

Tip pooling rules

MEL: tip pooling

Service charges vs. tips

Add

How "No Tax on Tips" changes tipped payroll reporting in 2026

The employer side moves here; the regulations section keeps a two-line summary

State and local tip credit rules

a link-out table with an "in flux" note

Restaurant payroll laws and regulations

Fair Labor Standards Act (FLSA) (federal)

- Federal
- Outlines the core requirements for payroll and labor conditions. In addition to governing minimum wage, it also oversees restaurant-specific payroll issues like tip pooling rules, recordkeeping, and tip credit eligibility.

“No Tax on Tips” (federal)

- Federal legislation
- Eligible workers can deduct up to \$25,000 in tips from their federal taxable income. This law remains in effect until December 31, 2028. Note: This legislation works independent of the FLSA. Operators should understand requirements for both. For a list of eligible employees, check with the IRS.

State and local laws

- Either one might have laws or regulations *in addition to* federal requirements. These vary by state and local municipality, so check with your {WHO FOR STATE?} and local {WHO FOR LOCAL?} to understand rules and how to stay compliant.

Tip pooling

- Employees combine all their tips into a central pot, then the collective tips are distributed to a predetermined set of employees.
- *Keep this brief, one sentence, because we already talk about tip pooling in detail in the above section*

How to set up restaurant payroll: paperwork checklist

Intro

Get your Employer Identification Number (EIN)

- Federal tax ID
- Required for almost all businesses w/employees
- Submit your EIN application on Internal Revenue Service's (IRS) [website](#)

Register with state agencies

- Department of Labor — for unemployment insurance (SUTA)
- Tax department — for state income tax withholding

Get workers' compensation insurance

- Required in most states to cover employees for job-related injuries or illnesses

Collect new hire forms:

- [Form W-4](#)
 - (Employee's Withholding Certificate):
 - Determines federal income tax withholding.
 - All employees need to complete it (including any new hires in future).
- [Form I-9](#)
 - (Employment Eligibility Verification):
 - Verifies the employee's identity and work authorization in the U.S.
 - Both the employee **and employer** have to complete this form
- State Tax Withholding Forms:
 - Some states have their own withholding forms (in addition to Federal W-4)
 - Check with your state's tax department to see if your state requires any additional withholding forms.
- Direct Deposit Authorization:
 - Optional, if you're offering direct deposit (and) employee opts into it
 - Need: employees bank information (usually account number and routing number) and their authorization

Create and distribute your employee handbook

- The [employee handbook](#) should include company policies, payroll details, benefits, expectations, and more.

- Make sure all employees have it, you review it together as a team, you periodically update it, new employees get it, etc.
- Morgan's MEL: [Restaurant Employee Handbook Template](#)

Conclusion: Write it into your [new employee onboarding](#) process, make sure you review comp and get all important forms completed and filed on time to stay in compliance

- MEL: [New Hire Onboarding Checklist](#)

Note: While this checklist can be a great jumping off point, legal and paperwork-related payroll requirements may vary by location. If you're unsure of the required restaurant payroll paperwork and/or legal setup in your area, consider seeking professional help from a local accounting or payroll professional. These professionals can offer more specific guidance on how to set up your payroll and ensure compliance across all your restaurant payroll processes.

How to choose a restaurant pay schedule

Intro

INSERT TABLE...

- Comparing:
 - Weekly
 - Biweekly
 - Semimonthly
 - Monthly
- Columns for
 - Pay periods per year
 - Pros
 - Cons
 - Best fit

How predictive schedule affects payroll

Add here

How to do payroll for a restaurant: step-by-step [PAA] [KW: how to do restaurant payroll]

Intro

Here's an overview of each step, with links to more details if you want to take a deep dive:

- Collect and approve timecards
- Collect tip data from the POS
- Calculate gross pay (link to the tipped section)
- Withhold employee taxes
- Calculate employer taxes
- Pay employees
- File and deposit taxes
- Keep records

How to calculate gross pay

- Pull the worked example from the original article

How to calculate net pay

- Pull the worked example from the original article

Restaurant payroll taxes [KW: restaurant payroll taxes]

Intro

State and federal payroll taxes you need to withhold (updated tax table)

Update + use the table from original [blog](#)

Let's take a look at the restaurant payroll taxes you'll need to withhold and pay each pay period:

Tax Type	Brief Description	Category	Responsibility
Federal Income Tax (FIT) Withholding 	Tax withheld from an employee's gross wages to cover their federal income tax liability. The amount is based on the employee's Form W-4.	Federal Payroll Tax	Employee (paid by the employer from their wages)
FICA  Taxes: Social Security*	Funds Social Security benefits for retirees, disabled workers, and survivors.	Federal Payroll Tax	Employer (6.2%) and Employee (6.2%)
FICA Taxes: Medicare*	Funds Medicare, a federal health insurance program for the elderly and disabled.	Federal Payroll Tax	Employer (1.45%) and Employee (1.45%)
Additional Medicare Tax 	An additional tax for high-income earners.	Federal Payroll Tax	Employee Only (0.9%)
Federal Unemployment Tax Act (FUTA) 	Funds state unemployment benefits through a federal program. (Also known as unemployment taxes.)	Federal Payroll Tax	Employer Only (6.0% on the first \$7,000 of wages. Many employers qualify for tax credits that can reduce their FUTA costs.)
State Unemployment Tax Act (SUTA)	Funds state-specific unemployment benefits. Rates vary widely by state and are assigned by the state's Department of Labor. (Also known as unemployment taxes.)	State Payroll Tax	Employer Only (rate varies by state)
State Income Tax Withholding	Tax withheld from an employee's gross wages to cover their state income tax liability. Not applicable in all states.	State Payroll Tax	Employee (paid by the employer from their wages)
Tip Taxes**	Employers must withhold FICA and federal income taxes from employees' reported tips .	Federal Payroll Tax	Employee (paid by the employer from their reported tips)

*Restaurants with tipped employees may be able to claim a FICA tax credit, which can reduce your overall taxable income. For more information, visit the [IRS' website](#) .

**There are special payroll considerations (including wage and tax considerations) for tipped employees. Employers may also be able to claim a tax credit for certain tipped employees. For more information, see the next section, "Special Considerations for Tipped Employees."

Federal payroll tax forms and due dates (updated forms table)

You've calculated wages, managed tips, and withheld taxes. Now it's time to report all of your hard work to the appropriate agencies, like the Internal Revenue Service (IRS) and the Social Security Agency (SSA). You'll need to also send your employees their own copies of some of these forms, so make note of them below. Here is a breakdown of the federal tax forms you need to submit throughout the year.

Update + use the table from original [blog](#)

Form Name	Description	Form Submission Responsibility	Due Date
Form 941 	The quarterly report of wages paid, federal income tax withheld, and FICA taxes.	Employer to IRS	April 30, July 31, October 31, and January 31
Form 940 	The annual report of Federal Unemployment Tax Act (FUTA) taxes.	Employer to IRS	January 31 of the following year
Form W-2 	A statement reporting an employee's annual wages and taxes withheld. Copies are given to the employee and filed with the Social Security Administration (SSA).	Employer to Employee and SSA	January 31 of the following year
Form 1099-NEC 	Reports nonemployee compensation of \$600 or more to independent contractors.	Employer to Contractor and IRS	January 31 of the following year
Form 8027, Employer's Annual Information Return of Tip Income and Allocated Tips 	A form for large food/beverage establishments (10+ employees) where tipping is customary is used to report annual total receipts and tips. If total reported tips are less than 8 percent of gross receipts, employers may need to allocate the difference among employees. (These allocated tips are not taxed.)	Employer to IRS	Last day of February of the following year

Note: While this section provides general information about payroll taxes, it is not financial or legal advice. For more insight into your personal payroll obligations and to ensure compliance with all relevant tax laws, make sure to consult with a tax professional.

Taxes on tips (withholding on reported tips, the FICA tip credit, Form 8027)

Add, but keep FICA brief because we talk about it up top (keep this to how it impacts taxes, not what the FICA tip credit is)

Restaurant payroll recordkeeping: how long to keep records

Start with why it matters:

- DOL and IRS audits (might ask for timecards and/or tip logs)
- Employee pay disputes

Recordkeeping retention table by agency:

Recordkeeping retention periods (how long you're required to hold documents and records) will vary by agency.

- IRS
- DOL/FLSA
- USCIS for I-9
- State

- Columns for record type and retention period.

One line noting that non-payroll records (temperature logs, invoices, incident reports) also have retention rules.

What should payroll be for a restaurant? [PAA]

How much should you expect to budget toward payroll in total? [How much should restaurants pay employees?](#)

Labor cost as a percentage of sales

Benchmarks

Payroll percentage: <https://pos.toasttab.com/blog/on-the-line/restaurant-payroll-percentage>

- *“Keep labor-cost-percentage coverage here summary-level & point deeper coverage there.”*

How to calculate restaurant labor cost

Calculating gross /net pay and labor cost

MEL: Labor Cost Calculator

What is the 30-30-30 rule for restaurants? [PAA]

Been largely discounted as an outdated formula in today’s restaurant economy.

But it said that a restaurant should split its total revenue into three main buckets — COGS (food and beverage costs), overhead and operating expenses (rent, utilities, insurance, marketing), and labor (wages, payroll taxes, benefits). It leaves 10% remaining as profit.

MEL: Profit Margin Calculator

Restaurant payroll software [KW: restaurant payroll software, best restaurant payroll software, restaurant payroll services]

Intro

What to look for

POS sync, tip import, tipped overtime handling, tax filing

For each vendor (depending on what info can get)...

- Best for
- Cost / base price
- Per-user fee
- POS syncing?
- Pros
- Cons

PRODUCT MENTION: Toast Payroll & Team Management

FAQs about restaurant payroll

How do restaurants pay their employees?

Add answer