

▶ Attach to your tax return.

Name(s) shown on return	Identifying number
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Note. Claim this credit **only** for social security and Medicare taxes paid by a food or beverage establishment where tipping is customary for providing food or beverages. See the instructions for line 1.

1 Tips received by employees for services on which you paid or incurred employer social security and Medicare taxes during the tax year (see instructions)	1	
2 Tips not subject to the credit provisions (see instructions)	2	
3 Creditable tips. Subtract line 2 from line 1	3	
4 Multiply line 3 by 7.65% (.0765). If you had any tipped employees whose wages (including tips) exceeded \$94,200, see instructions and check here <input type="checkbox"/>	4	
5 Credit for employer social security and Medicare taxes paid on certain employee tips from partnerships and S corporations.	5	
6 Current year credit. Add lines 4 and 5. Partnerships and S corporations, report this amount on Schedule K; all others, report this amount on Form 3800, line 1j	6	

General Instructions

Section references are to the Internal Revenue Code.

What's New

- The tax liability limit is no longer figured on this form; instead, it must be figured on Form 3800, General Business Credit.
- Taxpayers that are not partnerships or S corporations and whose only source of this credit is from those pass-through entities, are not required to complete or file this form. Instead, they can report this credit directly on line 1j of Form 3800.

Purpose of Form

Certain food and beverage establishments (see *Who Should File* below) use Form 8846 to claim a credit for social security and Medicare taxes paid or incurred by the employer on certain employees' tips. The credit is part of the general business credit.

You can claim or elect not to claim the credit any time within 3 years from the due date of your return on either your original return or on an amended return.

Who Should File

File Form 8846 if you meet both of the following conditions.

1. You had employees who received tips from customers for providing, delivering, or serving food or beverages for consumption if tipping of employees for delivering or serving food or beverages is customary.
2. During the tax year, you paid or incurred employer social security and Medicare taxes on those tips.

How the Credit Is Figured

Generally, the credit equals the amount of employer social security and Medicare taxes paid or incurred by the employer on tips received by the employee. However, the employer social security and Medicare taxes on tips that are used to meet the Federal minimum wage rate applicable to the employee under the Fair Labor Standards Act are not included in the computation. The Federal minimum wage rate is \$5.15 per hour.

For example, an employee worked 100 hours and received \$350 in tips for October 2006. The worker received \$375 in wages (excluding tips) at the rate of \$3.75 an hour. Because the Federal minimum wage rate was \$5.15 an hour, the employee would have received wages, excluding tips, of \$515 had the employee been paid at the Federal minimum wage rate. Thus, only \$210 of the employee's tips for October 2006 is taken into account for credit purposes.

Specific Instructions

Figure the current year credit from your trade or business on lines 1 through 4.

Line 1

Enter the tips received by employees for services on which you paid or incurred employer social security and Medicare taxes during the tax year. Include tips received from customers for providing, delivering, or serving food or beverages for consumption if tipping of employees for delivering or serving food or beverages is customary.

Line 2

If you pay each tipped employee wages (excluding tips) equal to or more than the Federal minimum wage rate, enter zero on line 2.

Figure the amount of tips included on line 1 that are not creditable for each employee on a monthly basis. This is the total amount that would be payable to the employee at the Federal minimum wage rate reduced by the wages (excluding tips) actually paid to the employee during the month. Enter on line 2 the total amounts figured for all employees.

Line 4

If any tipped employee's wages and tips exceeded the 2006 social security tax wage base of \$94,200 subject to the 6.2% rate, check the box on line 4 and attach a separate computation showing the amount of tips subject to only the Medicare tax rate

of 1.45%. Subtract these tips from the line 3 tips, and multiply the difference by .0765. Then, multiply the tips subject only to the Medicare tax by .0145. Enter the sum of these amounts on line 4.

Reduce the income tax deduction for employer social security and Medicare taxes by the amount on line 4.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is shown below.

Recordkeeping 6 hr., 27 min.

Learning about the law or the form 18 min.

Preparing and sending the form to the IRS 24 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.