Uniform System of Accounts for the Lodging Industry (USALI)

PART V. AMENDED AND RESTATED

GROSS VS. NET
REPORTING

Part V of the 11th edition of the USALI has been rendered obsolete by new GAAP Revenue Recognition (ASC 606). This amendment replaces Part V and reflects current GAAP.

Published under the guidance of the
AHLA Financial Management Committee

American Hotel & Lodging Association

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Introduction

The value of the Uniform System of Accounts for the Lodging Industry (USALI) is directly tied to strong industry adoption, which is largely driven by the major brand companies incorporating compliance with *USALI* in their operating agreements. Owners, asset managers, brands and operators all have a voice in the *USALI* by virtue of their balanced representation on the AHLA Financial Management Committee (FMC), the final approver of its content.

It is important to note that *USALI* does NOT define the accounting principles generally accepted in the United States of America (GAAP). Rather, *USALI* provides guidance for standard financial reporting and analysis, critical for effective management and benchmarking, that is intended to be consistent with GAAP. Therefore, when GAAP changes, this may create the need to update related reporting guidance. The change in GAAP for Revenue Recognition (ASC 606), effective January 1, 2018 for publicly-traded companies, created the need to update Part V: Gross vs. Net Reporting. These are reflected in this document.

We appreciate our partnership with HFTP which, as the *USALI* copyright owner, has permitted publication of this Part V amendment to the 11th edition of *USALI*.

— *AHLA Financial Management Committee*

PRINCIPAL VS. AGENT CLASSIFICATION

REPORTING REVENUE ON A GROSS VERSUS NET BASIS

In many revenue transactions, an entity other than the hotel is involved in delivering the goods and services to the customer. In those situations, a hotel must determine whether it is acting as a principal or as an agent in the transaction. A hotel must determine whether the nature of its promise is to provide the specified goods or services to the customer or to arrange for another entity to provide them. If the nature of the promise is to provide the specified goods or services to the customer, the entity is a principal and recognizes revenue on a gross basis. A principal in a transaction controls the specified goods or services before they are transferred to the customer. An agent arranges for another party to provide the goods or services and therefore recognizes revenue in the net amount it is entitled to for its agency services. The determination that the hotel is acting as an agent in the transaction results in the determination to record the transaction on the net basis. A determination of accounting for the revenues on a gross basis, as a principal, results in the gross (full) amount billed to the customer recorded as revenue. A determination of accounting for the revenues on a net basis, as an agent, results in the net amount retained, the amount billed to the customer less the amount paid to the supplier or the net commission retained, recorded as revenues.

A hotel should apply the following two steps to evaluate whether it is a principal or an agent in transactions involving more than one party delivering goods or providing services:

- Identify the specified goods or services to be provided to the customer; and
- Assess whether it controls the specified goods or services before they are transferred to the customer.

The hotel determines whether it is a principal or an agent for each specified good or service promised to the customer. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer. If a contract with a customer includes more than one specified good or service, the hotel could be a principal for some specified goods or services and an agent for others.

The hotel is a principal if it controls the specified good or service before that good or service is transferred to a customer. If a hotel does not control the good or service before it is transferred to the customer, the hotel is an agent in the transaction. Therefore, a key element of the determination is the concept of control. Control of a product or service refers to the ability to direct the delivery of, and obtain substantially all the remaining benefits from, the product or service. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, the product or service. The benefits of the product or service are the potential cash flows that can be obtained directly or indirectly from using, selling, or holding the product or service.

It is not always clear whether the hotel obtains control of the specified good or service. Therefore, the following three indicators of control can be useful in making the determination the hotel is a principal in the transaction, but should not be considered a checklist to be met in all scenarios (not all indicators must be present).

Three Indicators of Control

1. The hotel is primarily responsible for fulfilling the promise to provide the specified good or service.
2. The hotel has inventory risk before the specified good or service has been transferred to a customer, or after transfer of control to the customer.
3. The hotel has discretion in establishing the prices for the specified goods or service.

Not all indicators must be present.

ESTIMATING GROSS REVENUE AS A PRINCIPAL

Estimating the proper amount of gross revenue to record as a principal can be difficult in some transactions. The hotel does not always know the price charged to its customer for its goods or services by another entity. Such uncertainty may arise because the hotel does not have, and will not obtain, sufficient transparency into the intermediary's pricing. If the uncertainty related to the transaction price is not ultimately expected to be reasonably resolved, it should not be included in the transaction price. Therefore, in circumstances where the hotel is acting as a principal and the transaction price charged by an intermediary is not known, the amount which the hotel expects to be entitled from the intermediary should be recorded as revenue.

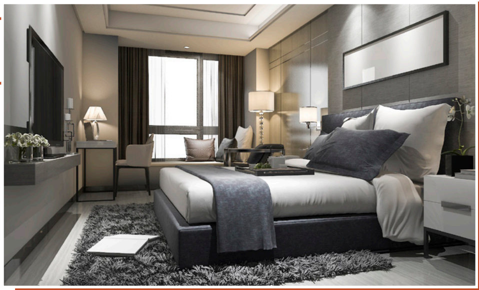
REPORTING CLASSIFICATION

The determination to report revenue on a net or gross basis also influences the classification of a revenue source for certain types of revenue. Room revenue, whether determined to be recorded gross or net, is recorded in the Rooms department. Audio Visual revenue, whether determined to be reported on a gross or net basis, continues to be recorded in the Food and Beverage department. For all other revenues, a determination of accounting on a gross basis results in recording revenue and expenses separately within an Other Operated department. A determination of accounting on a net basis results in recording revenue and expense net within Miscellaneous Income.

CASE STUDY EXAMPLES OF GROSS VS. NET REPORTING

The following case studies provide examples of applications of the preceding indicators to common property revenue sources. Many more revenue instances will fall into these types of determinations. In each case, it is the reporting entity that determines if the revenues are reported as gross or net, and each case will depend on the facts and circumstances of the arrangement, written or otherwise, between the property and the supplier.

Room Revenue



Online Travel Agent and Wholesaler

SCENARIO ONE: "RETAIL MODEL – PAY LATER"

Structure. Property A contracts with OTA Z to sell room inventory online. Property A establishes the price to be offered to the guest and pays OTA Z a stated commission on room inventory sold in exchange for marketing services performed by OTA Z. OTA Z does not guarantee minimum room nights sold. The guest is required to pay Property A directly and Property A remits the commission to OTA Z.

Evaluation. Property A is primarily responsible for fulfilling the promise to provide the specified good or service to the guest, has inventory risk before the specified good or service has been transferred to the guest and has discretion in establishing the prices for the specified goods or service. As Property A has all three control indicators, it records gross room revenue.

SCENARIO TWO: "MERCHANT MODEL – PAY NOW"

Structure. Property B contracts with OTA Z to market and sell room inventory online. OTA Z does not guarantee minimum room nights sold. Property B and OTA Z agree upon the price OTA Z will pay to Property B net of any commission and OTA Z has discretion over the price offered to the guest. OTA Z collects payment from the guest and remits the agreed upon price to the Property B. OTA Z may charge the guest additional booking fees and/or taxes and Property B has no knowledge of the total amount paid by the guest to OTA Z.

Evaluation. Property B is primarily responsible for fulfilling the promise to provide the specified good or service to the guest and has inventory risk before the specified good or service has been transferred to the guest while OTA Z has discretion in establishing the prices charged to the guest. As Property B has two of three control indicators, it is entitled to record gross revenue. However, since Property B does not know the price charged to its guest by OTA Z and it is not permissible to estimate the gross price, Property B should record as revenue the negotiated rate OTA Z will pay Property B, the net revenue.

SCENARIO THREE: "OPAQUE MODEL"

Structure. Property C contracts with OTA Z to market and sell room inventory online where the hotel name is revealed only after booking or as part of a travel package. Property C and OTA Z agree upon the price OTA Z will pay to Property C, and OTA Z has full discretion over the price offered to the guest. OTA Z guarantees a minimum number of room nights sold in a given period. OTA Z collects payment from the guest and remits the agreed upon price to the Property C.

Evaluation. Property C is primarily responsible for fulfilling the promise to provide the specified good or service to the guest, and OTA Z has discretion in establishing the prices charged to the guest and inventory risk before the specified good or service has been transferred to the guest. Since Property C has only one control indicator, it records net room revenue.

(Room Revenue continued...)

Group Negotiated Rates with Commissions and Rebates

SCENARIO ONE: THIRD PARTY COMMISSION

Structure. Company Z leverages a third party meeting planner to select Property A as the site for a large meeting. The third party meeting planners acts as a liaison between Property A and Company Z and negotiates the terms of the contract. Property A is required to pay a fixed commission per actualized room to the third party meeting planner. Company Z is responsible for paying the nightly room rate or payment of rooms minimum guarantee.

Evaluation. Property A is primarily responsible for fulfilling the promise to provide rooms, food and beverage and other services to Company Z, has inventory risk and has discretion in establishing the respective prices. As Property A has all three control indicators, it records gross room revenue and a commission expense.

SCENARIO TWO: GROUP DIRECT BILL

Structure. Property A contracts with Company Z to host a large meeting. Property A negotiates directly with Company Z and the contract terms require Property A to pay a fixed commission per actualized room directly to Company Z. Company Z is responsible for all meeting charges and pays Property A directly.

Evaluation. Gross vs. Net indicators do not apply as the commission is considered a rebate and qualifies as consideration paid to a customer which reduces the transaction price. Therefore, Property A records the revenue net of commission.

SCENARIO THREE: "INDIVIDUAL PAYS OWN – MINIMUM GUARANTEE"

Structure. Property A contracts with Corporate Group Z to host a meeting. Corporate Group Z negotiates a room rate with Property A on behalf of the meeting attendees and guarantees a minimum number of room nights. The meeting attendees contract with Property A and are responsible for paying their individual room charges to the Property A directly. Property A is required to pay a fixed commission per actualized room to Corporate Group Z.

Evaluation. Property A records the revenue net of commission. Corporate Group Z is considered the customer of Property A and therefore the commission is considered a rebate and qualifies as consideration paid to a customer.

Laundry and Dry Cleaning

SCENARIO ONE: IN–HOUSE OPERATION

Structure. Property A operates a laundry facility that performs laundry and dry cleaning services for the guests of the hotel. All employees are employed by the property. In addition, the equipment and supplies are also owned (or leased) by the property.

Evaluation. Since Property A is primarily responsible for fulfilling the promise to provide laundry services to the guest, has inventory risk and has discretion in establishing the prices, the revenues and expenses are reported on a gross basis within a Guest Laundry Operated department.

SCENARIO TWO: OUTSIDE CONTRACT

Structure. Property B contracts with XYZ Cleaners to launder and dry clean clothing for its guests. Property B collects the clothing from the guest, passes the clothing on to XYZ Cleaners for laundering or dry cleaning and then returns the clothing to the guest's room. XYZ Cleaner charges Property B the contracted amount to clean each item of clothing. Property B then marks up the cost charged by XYZ (by a fixed dollar amount or percentage) and charges the guest the higher amount. Property B is the primary obligor in providing the service and takes all responsibility for resolving guest service issues. Property B also has discretion in selecting which outside laundry service to use.

Evaluation. Property B is primarily responsible for fulfilling the promise to provide dry cleaning services to the guest and has discretion in establishing the prices for the specified goods or service. Since Property B has two control indicators, the revenues and expenses are reported on a gross basis as either an Other Operated Department or as a Minor Operated Department.

SCENARIO THREE: OUTSIDE CONCESSIONAIRE

Structure. XYZ Cleaners approaches Property C to provide laundry and dry cleaning services for the property's guests. Guests of Property C bring their clothing to the front desk with a completed XYZ Cleaners laundry service request form. The property then passes the clothing on to XYZ Cleaners for laundering or dry cleaning. Upon return to the property, the clothing is stored at the front desk for guest pick-up. Property C passes on the cost of the charge received from XYZ Cleaners directly to the guest without a markup. Property C then pays XYZ Cleaners the amount of laundry/dry cleaning revenue collected by property, minus a commission (percent of revenue or fixed dollar amount per item).

Evaluation. Property C is not primarily responsible for fulfilling the promise to provide dry cleaning services, does not have inventory risk and does not have discretion in establishing the prices. Since Property C does not have any control indicators, the revenue (commission) to the property is reported in Miscellaneous Income on a net basis.

In–room TV Entertainment

SCENARIO ONE: IN–HOUSE OPERATION

Structure. Property A owns its own TVs and MATV system and provides free local, basic and some premium cable channels to guests. Each room has its own VCR/DVD player and the property maintains a library of tapes and DVDs for rent by guests. In-room promotions list the titles available and the charges to rent a tape or DVD.

Evaluation. Since Property A is responsible for fulfilling the promise to provide entertainment services to the guest, has inventory risk and has discretion in establishing the prices, the revenues and expenses are reported on a gross basis as either an Other Operated department or as a Minor Operated department.

SCENARIO TWO: OUTSIDE TV ENTERTAINMENT SERVICE AGREEMENT

Structure. Property B enters into a service agreement with XYZ Video Corporation (XYZ Video) to provide pay-per-view movies and other electronic guest services which may include on-demand music, video games, TV on demand, music on demand and Internet access, all charged to the guest on a per-usage basis. The guest is made aware through in-room literature and/or video content that XYZ Video is providing these electronic video and guest services. XYZ Video sets the pricing of all services charged to the guest.

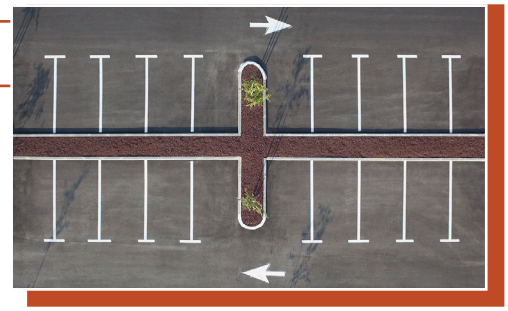
Property B owns or leases its TV and MATV system. XYZ Video owns and maintains its "system" of in-room electronic services.

Property B bills the guests the gross amount of the pay-per-view service as recorded by XYZ Video's monitoring system plus any applicable sales and use taxes. On a monthly basis, XYZ Video invoices Property B for the pay-per-view/usage fees recorded by its monitoring device. Property B is allowed to deduct a commission from its remittance to XYZ Video that is typically a percentage of the pay-per-view/usage fees.

XYZ Video provides training to Property B's personnel in the operation of the system, use of in-room electronic services, managing guest issues and complaints, and programming content, among other things. XYZ Video may permit a set number of monthly adjustments to guest pay-per-view charges, a flat percentage of total pay-per-view revenue to be adjusted on the monthly invoice, or it may allow Property B's management to determine all rebates to accommodate guest complaints depending on the contract.

Evaluation. Property B is not primarily responsible for fulfilling the promise to provide entertainment services, does not have inventory risk and does not have discretion in establishing the prices. Although it does provide some level of service, Property B does not have any control indicators. Therefore Property B would record the net commission it receives (a percentage commission of the pay-per-view/usage fees charged to the guest), in Miscellaneous Income.

Parking



SCENARIO ONE: PROPERTY OPERATION

Structure. Property A operates the parking lot and performs all services for guests using the facility. Property A sets the prices, collects the revenue, employs the parking employees and is responsible for the costs of operating the facility.

Evaluation. Property A is primarily responsible for fulfilling the promise to provide parking services, has inventory risk and has discretion in establishing the prices. As Property A has all three control indicators, the revenue and expenses are recorded on a gross basis in the Parking operating department.

SCENARIO TWO: OUTSIDE CONTRACTOR

Structure. Property B contracts with Contractor Z to provide parking administration and valet parking services for Property B's guests. Property B owns the parking structure, is responsible for costs of maintenance of the facility (including liability insurance) and has approval rights over the price to be charged to guests. Contractor Z charges the Property a contracted amount (percent of revenue or fixed amount) to provide the parking services. Property B is responsible for collecting the amounts charged to guests' folios.

Evaluation. Property B is primarily responsible for fulfilling the promise to provide parking services, has inventory risk and has discretion in establishing prices. As Property B has all three control indicators, the revenues and expenses are reported on a gross basis in the Parking operating department.

SCENARIO THREE: OUTSIDE CONCESSIONAIRE

Structure. Property C contracts with Company Z to provide parking facilities in a preferred provider relationship with the property. Company Z owns and operates the parking lot. Property C does not have pricing approval rights, passes the charge set by Company Z on to its guests without a mark-up and is responsible for the collection from the guest. The amounts collected on behalf of Company Z are remitted back to Company Z on a periodic basis net of a contracted commission.

Evaluation. Property C is not primarily responsible for fulfilling the promise to provide parking services, does not have inventory risk and does not have discretion in establishing the prices. As Property C does not have any control indicators, the revenues are recorded on a net basis in Miscellaneous Income.

SCENARIO FOUR: LEASE TO OUTSIDE CONCESSIONAIRE

Structure. Property D leases a parking facility to a third party (Company Z) that operates the parking lot. Under the terms of the lease, the parking facility is to provide parking services for the property. Company Z establishes the price to be charged for the service with input from Property D. The parking employees are employed by Company Z, but wear uniforms similar to those worn by the employees of Property D; it is not explicitly communicated to the guests of Property D that the employees are working for Company Z. Guests are able to charge the parking fees to their folios, in which case Property D remits the amount of collections back to Company Z on a periodic basis. Property D is not responsible for uncollectable parking fees from guests. Property D is not responsible for vehicle losses and/or damage.

Evaluation. Property D is not primarily responsible for fulfilling the promise to provide parking services, does not have inventory risk and does not have discretion in establishing the prices. As Property D does not have any control indicators, the revenues are recorded on a net basis in Miscellaneous Income.

Audio Visual

SCENARIO ONE: PROPERTY OPERATION

Structure. Property A operates its audio visual department, owns or rents the necessary equipment, sets the sales price, invoices the guests and performs all services for guests requiring the services.

Evaluation. As Property A is primarily responsible for fulfilling the promise to provide audio visual services, has inventory risk and has discretion in establishing the prices. As Property A has all three control indicators, the revenue and expenses are recorded on a gross basis. If Property A has a Food and Beverage department, it reports these revenues and expenses as Audiovisual and Audiovisual Cost on Food and Beverage – Schedule 2. If Property A does not have a Food and Beverage department, it reports these revenues and expenses as a Minor Operated department in Other Operated departments.

SCENARIO TWO: OUTSIDE CONTRACTOR

Structure. Property B contracts with Contractor Z as the exclusive recommended vendor to provide audio visual services for Property B's guests. Contractor Z employs the personnel to provide the service and is responsible for costs to purchase and maintain the equipment (including liability insurance). Property B employs the sales managers who coordinate the services of Contractor Z with the guests and is responsible for collecting the revenue from the guests. The sales contract between Property B and guests does not explicitly mention Contractor Z, and Property B coordinates and satisfies customer disputes. Property B and Contractor Z agree jointly upon the prices to charge and the standard of service. Contractor Z pays Property B a contracted amount (percent of revenue or fixed amount). Property B is responsible to pay Contractor Z for the services once they are performed regardless of whether the sales price is fully collected.

Evaluation. Property B is primarily responsible for fulfilling the promise to provide the specified good or service and Property B has discretion in establishing the prices for the specified goods or service. Therefore the two indicators support recording revenue on a gross basis.

SCENARIO THREE: OUTSIDE CONTRACTOR

Structure. Property C contracts with Contractor Z as the exclusive recommended vendor to provide audio visual services for Property C's guests. Contractor Z employs the personnel to provide the service and is responsible for costs of purchase and maintenance of the equipment (including liability insurance). Contractor Z determines the prices to charge for services to guest, but Property C has the ability to require Contractor Z to change their prices if it determines that Contractor Z's prices are unreasonable. The sales contract between Property C and guests states that the A/V services will be provided by Contractor Z and that Contractor Z is solely responsible for providing such services, or Contractor Z has a contract with guests directly. Contractor Z pays Property C a contracted amount (percent of revenue or fixed amount). Property C is responsible to collect the revenue and remit it to Contractor Z for the services once they are performed, however, if a guest fails to pay, Property C is not liable to Contractor Z.

Evaluation. Contractor Z is primarily responsible for fulfilling the promise to provide the audio visual services, has inventory risk and establishes the prices. Although Property C has a right to require Contractor Z to adjust pricing if it determines Contractor Z's prices are unreasonable, pricing control has not been established by Property C. Revenue should be recorded on a net basis in Miscellaneous Income.

Retail Outlets

SCENARIO ONE: PROPERTY OPERATION

Structure. Property A operates an on-premises retail outlet, employs the staff, owns or rents the necessary fixtures for the shop and purchases the inventory.

Evaluation. As Property A is primarily responsible for fulfilling the promise to provide the retail goods, has inventory risk and has discretion in establishing prices, the revenue and expenses are recorded on a gross basis.

SCENARIO TWO: LEASED SPACE

Structure. Property A rents space on the premises to Retailer Z. Retailer Z operates the retail outlet, employs the staff, owns or rents the necessary fixtures for the shop and purchases the inventory. The rental agreement between Property A and Retailer Z details what goods and services Retailer Z is allowed to sell, as well as the minimum or maximum price that certain products or services can be sold at. Retailer Z pays a fixed rent and/or a percentage rent to Property A. Property A can collect the retail sales charged to guestrooms through its guestroom billing and remit the amount to Retailer Z.

Evaluation. Retailer Z is primarily responsible for fulfilling the promise to provide the retail goods, has inventory risk and establishes the prices for the specified goods or service. Although Property A has established minimum and maximum prices in the contract, pricing control has not been established by Property A. Revenues should be recorded on a net basis in the Miscellaneous Income department.

Recreational Activities

SCENARIO ONE: PROPERTY OPERATION

Structure. Property A operates the tennis center at the resort. Staff and instructors are either full time or commissioned employees of the resort and the equipment, operating expenses, and insurance coverage are all purchased by Property A. Property A charges guests for the use of the services and is responsible for collection of the revenues and payment of the expenses.

Evaluation. As Property A is primarily responsible for fulfilling the promise to provide the tennis facility and services, has inventory risk and has discretion in establishing prices, the revenue and expenses are recorded on a gross basis in the Tennis Center operating department.

SCENARIO TWO: OUTSIDE CONTRACTOR

Structure. Property B contracts with Contractor Z to provide Tennis instruction, rental equipment and court maintenance for Property B's guests. Contractor Z employs the personnel to provide the service, establishes prices and is responsible for costs of purchase and maintenance of the equipment (including liability insurance). Contractor Z requires the guests to sign a liability waiver in its legal operating name prior to delivery of the services. Contractor Z pays the Property a contracted amount (percent of revenue or fixed amount) to provide the tennis services and retail. Property B collects the amounts charged to guests' rooms and remits it to Contractor Z.

Evaluation. Contractor Z is primarily responsible for fulfilling the promise to provide the tennis services, has inventory risk and has discretion in establishing prices. As Property B has none of the control indicators, revenues should be reported on a net basis in Miscellaneous Income.

SCENARIO THREE: THIRD PARTY MANAGEMENT

Structure. Property C has certain facilities for use as a tennis center, but not the in-house expertise to operate it. Property C therefore enters into an agreement with Contractor Z to provide advice on tennis instruction, rentals and services for Property C's guests. Contractor Z provides recommendations on employees for Property C to hire and the levels and quality of insurance, equipment and retail items for Property C to purchase (including liability insurance). In return for providing this service, Contractor Z receives a management fee based on the revenue and an incentive fee based on the profit of the tennis center. All of the revenues and expenses of the tennis center are the responsibility of Property C, including the fees.

Evaluation. Property C is primarily responsible for fulfilling the promise to provide the tennis services, has inventory risk and has discretion in establishing prices. As Property C has all three control indicators, revenue is recorded on a gross basis in the Tennis Center operating department.

SURCHARGE, SERVICE CHARGES AND GRATUITIES

Surcharges and Service Charges

Surcharges and service charges generally include any mandatory, non-discretionary or other charge automatically added to a customer account in respect of the service or use of an amenity, and may include, but are not restricted to, such items as:

Item Charges	Department Recorded
Resort Fees:	Miscellaneous Income
Bag Handling:	Rooms Other
Banquet Service:	F&B Other
Restaurant Service:	F&B Other
Room Service Delivery:	F&B Other
Corkage Charge:	F&B Other
Pool Towel:	Health Club/Spa Other
Spa Service:	Health Club/Spa Other

The property must make a judgment on whether it is acting as an agent or as a principal in the transaction in order to make a determination on reporting the revenue from that transaction on a net or a gross basis.

GAAP related to revenue recognition is fully applicable to both surcharge and service charges.

When such charges are mandatory and the client does not have the ability to alter the amount or direct where the payment of the service charge should be made, the Property is considered to:

- Be primarily responsible for fulfilling the promise to provide the specified good or service;
- Have inventory risk; and
- Have discretion in establishing the prices.

In such cases, surcharges and service charges should be recorded as revenue and may not be credited to any expense account.

All mandatory non-discretionary fees that are disclosed to the client as a "service charge" should be classified as a service charge. Those would include the service charge added to rooms (usually outside the United States), banquet service charge, in-room dining service charge, etc.

Those mandatory non-discretionary fees that do not contain the words service charge in their name would be surcharges. Included in this group would be resort fees, bag handling fees, corkage charges and pool towel charges.

Gratuities

A gratuity is generally a discretionary amount added to an account, or left directly with an employee, by the customer.

When the customer established the price, through the unrestricted right to determine the amount of the charge, makes the pricing decision free from compulsion, and the charge is not the subject of negotiation or dictated by the property's employment policies; then an evaluation of GAAP would likely determine the amount to be a gratuity, notwithstanding that the property remains the principal to the transaction.

Gratuities are generally retained by the employee at the time of the transaction in the case of cash or disbursed by the employer as trustee for the employees in the case of charged gratuities.

A gratuity is not revenue to the property, rather is treated as income directly in the hands of the employee.

Determination of Surcharges, Service Charges and Gratuities

Examples

Food and Beverage Venue

1. The policy of the food and beverage venue is to charge an 18 percent fee on parties larger than 8 people. The guest does not get to decide:

   - The amount of the charge; or
   - Whether they actually wanted to leave any amount in respect of the service provided.

   In such cases, the amount would be considered to be a service charge and should be recorded as revenue to the property. In many jurisdictions the amount is also subject to sales tax.

2. The food and beverage venue has no minimum gratuity policy and relies on the guest to freely decide how much, if anything, to leave the service staff. In this case the any amount provided by the customer would be considered a gratuity and not recorded as revenue to the property. The determination is independent of whether the guest voucher provides a blank line for the client to add a gratuity.

3. The food and beverage venue adds a suggested charge of 15 percent on all guest checks, as a matter of convenience for the customer, with full disclosure (on menus and guest checks) that the customer has the right to change the amount at their discretion. In this case the amount ultimately provided by the customer would be considered a gratuity.

Spa

1. The policy of the spa is to charge a 20 percent fee on all treatments. Following a spa treatment, the guest is presented with a charge voucher to sign which includes the additional 20 percent; the guest has no discretion to eliminate or change the amount. In this case, the amount would be considered to be a service charge and should be recorded as revenue to the property. In many jurisdictions the amount is also subject to sales tax.

2. The spa has no minimum gratuity policy and relies on the guest to freely decide how much, if anything, to leave the spa staff. In this case the amount is considered a gratuity and should not be recorded as revenue to the property. The determination is independent of whether the guest voucher provides a blank line for the client to add a gratuity.

3. It is the policy of the spa to add an 18 percent charge on all spa bills, which is paid to the therapist providing the service. The policy evolved due to the profile of the customer who is unfamiliar with the local tipping policy. There is no communication or disclosure mae to the guest in respect of any discretion allowed in the amount charged, unless the guest initiates such inquiry or complains about the charge. In this case, the guest is unaware that it has the ability to decide:

   - The amount of the charge; or
   - Whether they actually wanted to leave any amount in respect of the service provided.

   The amount would be considered a service charge and should be recorded as revenue to the property. In many jurisdictions the amount is also subject to sales tax.