



PUBLIC AFFAIRS POLICY BRIEF SERIES

POLICY BRIEF

# TIP CREDIT

## TIPPING IS PREFERRED BY RESTAURANTS, EMPLOYEES AND CONSUMERS

- Creates higher **earning potential** for tipped employees
- Helps restaurants with slim profit margins **recruit and retain top talent**
- No state has eliminated the tip credit** in more than 2 decades
- The tip credit has **bipartisan support** at the local, state and federal levels

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## EMPLOYEES AND CONSUMERS PREFER THE TIP CREDIT

The Raise the Wage Act of 2021 would hike the federal minimum wage from the current \$7.25 to \$15 per hour over five years and eliminate the tip credit for tipped employees who earn \$19-\$25 per hour on average.

## ENDING TIP CREDIT HURTS WORKERS

The Raise the Wage Act also eliminates the tip credit, which tipped workers have been fighting to maintain.

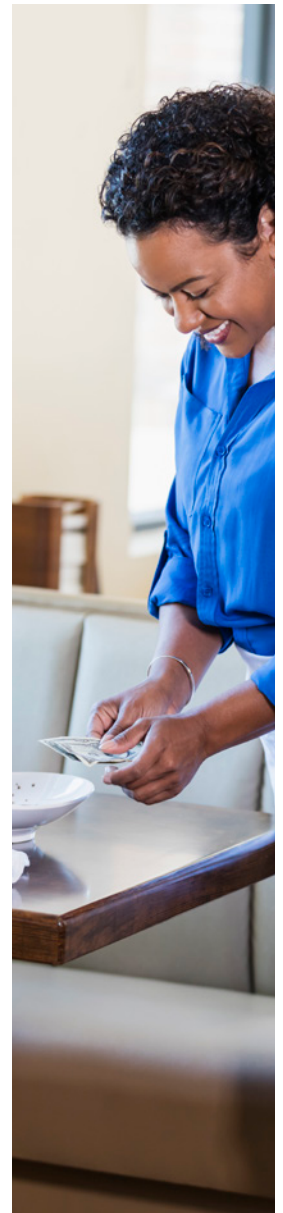
Restaurant operators pay tipped employees a base hourly wage to which the tip amount the employee makes is added. If this combined wage is not equal to the required hourly minimum wage, the restaurant operator is required by law to make up the difference (note that 29 states and 55 municipalities already have a minimum wage that supersedes the federal minimum wage).

Tipped restaurant employees on average make between \$19-\$25/hour. No tipped employee ever makes less than the required minimum wage.

If the tip credit is removed, many restaurants will eliminate tipping and move to an hourly wage system. Employees who were traditionally tipped would have far less earning potential, and restaurants would be forced to reduce employee hours or operate with fewer employees to manage the higher hourly wage costs.

Recent attempts to eliminate the tip credit in Chicago, Maryland, D.C., Michigan, Virginia, New Mexico, and Maine were soundly defeated after many tipped workers spoke out about why they prefer the tip credit system.

Although the Raise the Wage Act mandates that tipped and non-tipped workers be paid the same minimum wage, it does not give operators the ability to require tip "pooling" where tips are shared between those who traditionally receive them (servers) and those who do not (kitchen staff), effectively removing an established means to minimize disparity.



## **ENDING TIP CREDIT HURTS RESTAURANTS AND CONSUMERS**

Hospitality and flexibility are hallmarks of the restaurant industry and why nearly 90% of consumers enjoy going to restaurants. Tipping is why so many employees choose restaurants as a first job, a side job for extra income, a job while in school, a second chance, or a career.

## **EMPLOYEES AND VOTERS OPPOSE ENDING TIP CREDIT**

Recent attempts to eliminate the tip credit in Chicago, Maryland, D.C., Michigan, Virginia, New Mexico, and Maine were soundly defeated after tipped workers spoke out about why they prefer the tip credit.

On March 5th, the Senate voted—on a strong bipartisan basis—against an amendment to include the Raise the Wage Act in the American Rescue Plan (COVID-19 relief bill). Several senators, who support a minimum wage increase, recognized that the Raise the Wage Act is the wrong approach.

