



# TIP CREDIT POLICY BACKGROUNDER

## Tipped Employees Support the Existing Tipping System

- The most important aspect of tipping is that servers support the existing system. Tipping provides an incentive for exceptional customer service and creates major earning potential for tipped employees.
- According to a recent National Restaurant Association survey of 529 full-service restaurant operators with tipped employees, the median hourly earnings of entry-level servers is \$19 an hour, while the median hourly earnings of more experienced servers is \$25 an hour. In this data, the upper quartile for more experienced servers is \$38 per hour.
- When attempts were made to eliminate the tip credit in Maine, Michigan, and the District of Columbia, tipped employees rallied to preserve the tip credit and the existing tipping system. In all three jurisdictions, lawmakers listened to those workers and preserved the tip credit.
- Some restaurants voluntarily tried to eliminate tipping and go to the “one fair wage” model, but several have gone back to the tipping system because their best employees earned less money and sought employment elsewhere.[1]

## The Tip Credit Guarantees Employees the Minimum Wage, but Many Earn Much More

- No tipped employee can ever legally earn less than the minimum wage, period. Tipped employees must earn at least the federal minimum wage, or the relevant local/state minimum wage, through a combination of the direct cash wage from their employer and the tips they earn. If the combination of the direct cash wage and tips does not equal or exceed the minimum wage, the restaurant must compensate the tipped employee to make up the difference.
- While the existing tip credit system guarantees that tipped employees make at least the relevant minimum wage, most earn between \$19 and \$25 per hour.
- There are serious penalties for restaurants that fail to follow the legal requirements that guarantee tipped employees at least the minimum wage.

[1] See: <https://ny.eater.com/platform/amp/2018/11/28/18116133/tarlow-brooklyn-restaurants-no-tipping>



## No State Has Eliminated the Tip Credit in More Than a Decade

- The vast majority of states have a tip credit--only seven states do not have a tip credit, and none of those states have eliminated the tip credit in the last decade.
- When there were recent attempts to eliminate the tip credit in Maine, Michigan, and the District of Columbia, lawmakers quickly took action to preserve it.

## The Tip Credit Has Bipartisan Support

- During the past several years, lawmakers on both sides of the aisle have listened to tipped workers and have taken action to preserve the tip credit when it has been in jeopardy.

## Eliminating the Tip Credit Would Negatively Impact Employees, Customers, and Restaurants



### Employees

- If the tip credit is removed, many restaurants will eliminate tipping and move to an hourly wage system. Under that scenario, tipped employees would likely earn less than they currently do.
- Restaurants would face significantly higher labor costs and many could be forced to reduce employee hours or operate with fewer employees.



### Restaurants

- If the tip credit is removed, your favorite restaurants would see major increases in their labor costs. The increase, combined with rising food costs, regulatory compliance costs, and others costs of doing business would make it harder for independent restaurants to succeed and stay in business.
- Sadly, independent neighborhood restaurants would struggle the most to succeed in such an environment.



### Customers

- Tipping incentivizes the high-quality guest service that is a hallmark of the U.S. restaurant industry. Eliminating the tip credit and the existing tipping system would reduce the incentive to provide great service.

**The current tipping system works for employees, customers, and restaurants!**