

The Case for the Tip Credit:

FROM WORKERS, EMPLOYERS, AND RESEARCH

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Executive Summary

The tipping system provides substantial earning opportunities for workers across many industries, especially restaurant servers and bartenders – well beyond the current minimum wage, and even beyond the proposed \$15 minimum wage.

Saving the tip credit is an employee-organized, bipartisan issue. Thousands of tipped workers across the country have pushed to save the tip credit, against the infringement of outside interests and activists. Employees have lived the consequences of tip credit elimination documented by decades of economic research on tipped minimum wages: as tip credits are reduced, therefore raising the mandated cash wage, traditionally-tipped workers' jobs, earnings, and workplaces are threatened.

In 2021, a bipartisan group of U.S. Senators rejected a bill that would have eliminated the tip credit nationwide. Yet activists continue to fight against the preferences of tipped restaurant workers, and ignore the findings of economic research. Now, the focus on eliminating tip credits has largely shifted to state legislatures and ballot initiatives. In the 2023 state legislative session, there are bills in at least eight states to eliminate tip credits.

Eliminating the tip credit would have drastic negative economic impacts on America's restaurant servers and bartenders. This brief provides a comprehensive analysis of workers', restaurants', and economists' view of the merits of maintaining the tip credit over non-tipping alternatives, including:

- Tipped employees consider the current system to be a profitable, flexible earning system: 97 percent prefer it over no-tipping alternatives.
- Tipped workers nationwide report earning more-than-twice the current federal minimum wage (\$15.51) per hour on average.¹ When tips are included in the calculation of hourly earnings, tipped workers can make as high as \$84 per hour.²
- Tipped workers are roughly 20 percent (3.6 percentage points) less likely to be poor than other minimum wage workers.

¹ Calculated average hourly wage for waiters and bartenders, with tips included, Current Population Survey, 2003-2020. Calculation by William Even (Miami University) and David Macpherson (Trinity University). <https://minimumwage.com/2021/04/15-per-hour-earnings-are-already-here-for-tipped-workers/>

² https://web.archive.org/web/20211116150326/https://upserve.com/media/1612_Content_Infographic_No_Tipping_v1-1.pdf

- A \$15 tipped minimum wage will cost more than 280,000 tipped workers their jobs and cost more than \$2.2 billion in workers' earnings.
- Customers prefer the traditional tipping system (81%) to no-tip alternatives.
- Many restaurants that have tried eliminating the tip credit and no-tip policies have switched back to traditional tipping, in response to workers' and customers' opposition to the change.

Background and History of Tipping in America

In Europe, tipping began for servants in private homes, and then expanded to coffeehouses and other businesses. According to historian Kerry Segrave, this practice turned commercial as early as the 18th century, where patrons provided tips to hotel and restaurant employees for quality service. The regular use of the term “tip” to mean additional monies provided to service employees may have come from a variety of sources: the Dutch word *tippen* (referring to the clinking sound of a coin against a glass to catch a server’s attention), the Latin *stips* meaning “gift”, or early anecdotes that English writer Samuel Johnson placed coins in a bowl inscribed “to insure promptitude” at a coffeehouse he frequented.^{3,4}

Tipping in the United States has been traced back to American travelers returning home from Europe shortly after the Civil War.⁵ While anti-tipping activists have sought to degrade the practice as racist, labor economist Gerald Friedman, a professor at the University of Massachusetts Amherst, concludes that tipping in the U.S. was not racially motivated, and instead was a practice to demonstrate wealth and worldly culture. He also notes that southern states banned tipping altogether in the early 20th century, an action that likely carried no link to slavery as it was eliminated for all employees for a period of time, mainly as a rejection of European aristocracy.^{6,7}

The Fair Labor Standards Act set a national minimum wage in 1938, but did not include workers who earned tips. In 1966, the law was expanded to include restaurant workers. The difference between the standard minimum wage and

³ <https://books.google.com/books/about/Tipping.html?id=PjFTYcB48uIC>

⁴ <https://www.nytimes.com/2008/10/12/magazine/12tipping-t.html>

⁵ <https://core.ac.uk/download/pdf/327049395.pdf>

⁶ <https://www.washingtonexaminer.com/minimum-wage-activists-call-tipping-racist>

⁷ <https://www.nytimes.com/2008/10/12/magazine/12tipping-t.html>

the lower required “cash wage” to be paid to tipped employees is considered the “tip credit.”⁸

The federal tipped wage was set at its current rate as part of amendments made in 1996, which defined tipped employees as those earning more than \$30 in regular tip income.⁹ Currently, federal law allows employers to pay a base wage of \$2.13, as long as these employees are documented to have earned weekly tip income that makes up the \$5.12 difference.¹⁰ Therefore, all tipped employees must make at least the federal standard minimum wage in total earnings.

All states and localities must comply with this federal standard, at a minimum. Seven states, and included cities, do not allow employers to factor in any tip credit when paying workers who receive tips. Therefore, tip-eligible employees in these states are paid the standard minimum wage rate in their state or city, whichever is highest. Several states also have their own laws about the size of the tip credit, which is smaller than the federal tip

credit, and effectively places their tipped wages higher than the federal tipped minimum.¹¹

Who are today's tipped workers?

- The average hourly earnings for tipped workers was \$15.51 in 2020.¹²
- Tipped workers are roughly 20 percent (3.6 percentage points) less likely to be poor than standard minimum wage workers, and 2.8 percentage points less likely to be considered “extremely” poor.¹³
- Traditionally-tipped restaurant workers such as servers and bartenders accounted for roughly 2.3 million jobs in 2021, making up nearly 2 percent of employment nationwide.¹⁴
- Tipped restaurant jobs provide important entry-level opportunities: nearly one in three American workers claims their first job as being in the restaurant industry.¹⁵

⁸ <https://www.everycrsreport.com/reports/RL33348.html>

⁹ <https://www.everycrsreport.com/reports/RL33348.html>

¹⁰ <https://www.dol.gov/agencies/whd/fact-sheets/15-flsa-tipped-employees>

¹¹ https://epionline.org/wp-content/uploads/2021/02/201215_EPI_MW_Chart.pdf

¹² Calculated average hourly wage for waiters and bartenders, with tips included, Current Population Survey, 2003-2020. Calculation by William Even (Miami University) and David Macpherson (Trinity University). <https://minimumwage.com/2021/04/15-per-hour-earnings-are-already-here-for-tipped-workers/>

¹³ https://epionline.org/app/uploads/2022/07/220502_EPI_Study_NeumarkTippedWorkers.pdf

¹⁴ Employment Policies Institute calculation of Bureau of Labor Statistics Occupational Employment and Wage Statistics data for 2021 employment in SOC codes 353011 (bartenders) and 353031 (waiters and waitresses). <https://www.bls.gov/oes/data.htm>

¹⁵ <https://www.americaworkshere.org/first-job>

Economic Research on Tipping

The current system of tipping preserves substantial earnings and job opportunities for workers in tipped industries, and much of the economic literature finds that raising the tipped wage or eliminating the tip credit altogether has negative effects on employment and earnings for workers earning tips.

EMPLOYMENT EFFECTS

Three quarters of American labor economists agree that reducing the tip credit, therefore raising the tipped minimum wage, costs employees their jobs.¹⁶

In 2021, a U.S. Senate proposal to raise the federal minimum wage to \$15 per hour and eliminate the federal tip credit was rejected by a bipartisan group of Senators. These lawmakers voiced specific concerns over the impact this legislation could have on tipped workers' livelihoods.

Now, proposals at the state level aim to eliminate state tip credits, often raising tipped minimum wages to \$15 per hour or higher. In a study of state tipped minimum wage increases, economists David Neumark and Maysen Yen, University of California-Irvine, found that every one-dollar increase in the tipped minimum wage leads to a 6.1 percent decrease in tipped restaurant employment.¹⁷ Building on this finding, economists William Even, Miami University, and David Macpherson, Trinity University, estimated the impacts of a potential \$15 tipped minimum wage could cost more than 280,000 tipped restaurant jobs nationwide, representing a near 12 percent loss in total tipped employment. Paired with a simultaneous regular minimum wage increase, this could cost the restaurant industry more than 801,000 jobs in total.¹⁸

An earlier study by Even and Macpherson concluded that in markets with higher tipped wages, like San Francisco and Seattle (both of which do not allow any tip credit), full-service restaurants employ 18 percent fewer tipped employees than in areas with lower tipped minimum wage requirements.¹⁹ Tip-eligible employees also represent almost 19 percent fewer work hours in these cities, as compared with lower-cost areas. This builds on a previous analysis of variation in state-level minimum wage requirements which demonstrates that lowering the tip credit—

¹⁶ <https://epionline.org/app/uploads/2022/04/2022-04-EPI-Economist-Survey.pdf>

¹⁷ https://epionline.org/app/uploads/2022/07/220502_EPI_Study_NeumarkTippedWorkers.pdf

¹⁸ https://epionline.org/app/uploads/2022/11/221012_EPI_StateAndFamilyImpactsOf15Min-Wage_FINAL.pdf

¹⁹ <https://epionline.org/studies/raising-the-tipped-wage-reduces-opportunity-for-tipped-workers/>

therefore increasing the required minimum wage for tipped workers—reduces tipped employment in the full-service restaurant industry.²⁰

Raising tipped wages not only decreases the number of jobs in existing businesses, but it also negatively affects the number of businesses offering tip-eligible jobs, where workers can earn a substantial income from tips. Analysis by Harvard Business School concluded that each \$1 increase in San Francisco's tipped minimum wage correlated with a 14 percent increase in the likelihood of median-rated restaurant closure, taking tipped employment opportunities with it.²¹ Analysis of Bureau of Labor Statistics Quarterly Census of Employment and Wages (QCEW) data also shows that San Francisco and other high-wage markets have experienced employment loss in their full-service restaurant industries correlating with tipped minimum wage increases.²² Since 2017, San Francisco has lost over 1,200 full-service restaurant jobs; Portland, OR has lost nearly 1,000 full-service restaurant jobs; and New York City has lost over 4,700.²³ Annual employment growth in the industry in these cities, as well as Seattle, has been in a general state of decline since 2012.²⁴

INCOME EFFECTS

Raising the tipped minimum wage and eliminating the tip credit also reduces the overall incomes of affected workers. First, evidence shows that tipped wage increases cause tip income to fall. A study by Michael Lynn, Cornell University, finds that states with higher tipped minimum wages had statistically lower average tip percentages in full-service restaurants, compared to states with lower tipped minimum wage requirements.²⁵ This is supported by a recent data release by Toast, a large company providing point-of-sale technology to thousands of restaurants across the country. The data revealed in 2022, states with higher tipped minimum wages had significantly lower average tip percentages in full-service restaurants, but not necessarily in other locations such as quick-service restaurants. As such, six out of the seven states that have already eliminated their state tip credits were in the bottom half of the lowest state tip percentages in the country, with California and Washington at the bottom of the list.²⁶

²⁰ <https://www.jstor.org/stable/23809644?seq=1>

²¹ https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2951110

²² <https://www.minimumwage.com/2020/09/will-a-high-minimum-wage-hinder-cities-covid-recovery/>

²³ <https://data.bls.gov/PDQWeb/en>

²⁴ <https://www.minimumwage.com/2020/09/will-a-high-minimum-wage-hinder-cities-covid-recovery/>

²⁵ <https://journals.sagepub.com/doi/abs/10.1177/0886368720908959>

²⁶ <https://minimumwage.com/2023/03/one-flat-wage-states-see-lower-tips/>

Second, as tipped restaurant workers earn significant income through their tips, lower tip percentages cause many employees to lose their valuable tip income. Analysis by Maggie Jones, U.S. Census Bureau, concluded that increasing tipped minimum wages results in a decrease in tip income and overall worker earnings, finding that a 5 to 6 percent increase in the tipped minimum wage results in a decrease in tip income of the same magnitude when compared across states with varying tipped minimum wage levels. The author concludes these results “show that servers do not ultimately make more in total hourly wage” as a result of higher mandated wages paid by the employer compared to the old tipping system.²⁷

Economists find this takes a toll on tipped restaurant workers’ overall earnings. The study by Neumark and Yen found that based on state tipped minimum wage hikes across the country, every one-dollar increase in the tipped minimum wage (and therefore decrease in the size of the allowed tip credit) resulted in up to 5.6 percent quarterly earnings loss for tipped restaurant workers.²⁸ Building on this finding, Even and Macpherson estimate tip credit elimination leading to a \$15 tipped minimum wage could cost more than \$2.2 billion in worker earnings nationwide.²⁹

ANTI-POVERTY EFFECTS

A new study by David Neumark and Maysen Yen, University of California-Irvine, analyzes Current Population Survey (CPS) data to compare tipped workers to other low-wage, hourly workers - and finds that traditionally tipped workers are 6.4 percentage points less likely to be below the poverty line compared to other low-wage, hourly counterparts. Through a series of comparisons, Neumark concludes that tipped workers are most directly comparable to hourly workers earning up to 150 percent of the minimum wage, rather than minimum wage workers. In addition, Neumark estimates that because of this conclusion, raising the tipped minimum wage and eliminating tip credits altogether would be even less effective in raising wages for workers experiencing poverty than a general minimum wage increase, which has already been demonstrated to be ineffective as an anti-poverty policy. Neumark finds that raising the federal tipped wage would only benefit 3.9 percent of workers in extreme poverty.³⁰

²⁷ <https://www.census.gov/content/dam/Census/library/working-papers/2016/adrm/car-ra-wp-2016-03.pdf>

²⁸ https://epionline.org/app/uploads/2022/07/220502_EPI_Study_NeumarkTippedWorkers.pdf

²⁹ https://epionline.org/app/uploads/2022/11/221012_EPI_StateAndFamilyImpactsOf15Min-Wage_FINAL.pdf

³⁰ https://epionline.org/wp-content/uploads/2021/02/200125_EPI_TippedWorkersMinWage-WorkersandPoverty-2.pdf

This finding concurs with a 2017 study by Joseph Sabia (San Diego State University), Richard Burkhauser (University of Texas-Austin), and Taylor Mackay (University of California-Irvine). Sabia et. al. concluded that historically, raising the tipped minimum wage has actually increased the risk that young, lower-educated workers live in a poor family or household, as rising costs shift employers to hire higher-educated or higher-skilled workers, pricing out lower-skilled workers.³¹

Employee Support and Customer Preferences for Tipping

Employees who receive tips have historically supported the tipping status quo, including allowing employers to use tip credits when calculating the wage paid to their employees, and reject the movement to eliminate the tip credit.

Polling data shows that employees, and customers, prefer the traditional tipping method over raised menu prices or flat service charges added to the bill. A survey conducted by Upserve of 1,000 restaurant employees found that 97 percent of respondents preferred tipping, as they felt they retained more direct control over their income.³² Respondents reported that their hourly income ranges as high as \$84, expressing support for the flexibility afforded by the tipping pay model.³³ A survey of 3,000 consumers found that 81 percent of restaurant-goers also prefer the current tipping model.³⁴ Research by Michael Lynn, Cornell University, also finds that customer ratings fall when a restaurant institutes a no-tipping policy. Lynn's research also confirms that dining customers are sensitive to price changes, and the inclusion of mandatory flat service charges or increased menu prices to offset the costs of eliminating the tip credit is likely to reduce consumer demand for dining out.

Workers in areas with high tipped wages, or areas where no tip credit exists at all, have criticized the movement toward a no-tipping system. Cities like Seattle have annually hiked their minimum wages while not allowing employers to count tip credits towards the base wage they pay their employees. As rising labor costs in 2019 forced many of Seattle's restaurants to close and lay off employees, one former employee observed: "The legal minimum is going to \$16.39 an hour, while my pay

³¹ https://cheps.sdsu.edu/docs/CHEPS_Working_Paper_080917.pdf

³² <https://upserve.com/restaurant-insider/restaurant-industry-report-shares-every-thing-need-know-tipping/>

³³ https://upserve.com/media/1612_Content_Infographic_No_Tipping_v1-1.pdf

³⁴ <https://www.prnewswire.com/news-releases/horizon-media-study-finds-most-consumers-not-ready-to-stop-tipping-300213406.html>

drops to zero.”³⁵ She notes that other former employees enjoyed their jobs and stayed for a long time, as people like herself were able to support their families through considerable income earned in tipped positions. Yet, rising minimum wages and no-tipping models have created serious barriers for her industry, and her own employment and income.

Rejecting Inaccuracies About Tipped Work

Tipped workers support the tipping system, and reject any linkages to harassment or racism, calling this characterization of their work “**degrading and offensive.**”

- African American tipped employees disagree with anti-tipping activists: “Tipping is not racist at all...People stay in it because they make good money and enjoy it.”³⁶
- Female tipped employees responded to celebrities urging NY governor Cuomo to end the tip credit and linking tipped work to sexual harassment: “[Activists] are exploiting the isolated stories of people that have suffered injustices, and making it out to be the industry’s or the tipping system’s fault. That is just not true.”³⁷

An analysis of data from the Equal Employment Opportunity Commission (EEOC) reveals that **sexual harassment charges for the restaurant industry slightly increase as the tipped wage rises.**³⁸

- The data predicts that raising New York’s tipped wage by \$5 per hour would increase the state’s proportion of sexual harassment charges from restaurants by 3.5 percentage points.
- There is **no evidence that states with lower tipped wages experience higher rates of workplace harassment** in restaurants than states with higher tipped wages.³⁹

³⁵ <https://www.wsj.com/articles/seattles-wage-mandate-kills-restaurants-11576195087>

³⁶ <https://washingtoncitypaper.com/article/186084/fear-mounts-in-restaurant-industry-as-dc-prepares-to-vote-on-the-tipped-minimum-wage/>

³⁷ https://static1.squarespace.com/static/5a3d42817131a537b7e07e12/t/5abbae711ae-6cf781457550e/1522249329822/RWA_Statement.pdf

³⁸ <https://www.minimumwage.com/2018/06/eeoc-data-debunks-claimed-link-between-tip-credits-and-sexual-harassment/>

³⁹ <https://www.minimumwage.com/2020/12/one-unfair-wage-study-from-roc-linked-labor-group/>

Successful Movements to Save the Tip Credit

Upon the rise of initiatives to eliminate the tip credit across the country, bipartisan groups of affected workers have successfully organized to save their tips. For example:

- In Maine, a 2016 ballot measure passed to eliminate the tip credit statewide and increase required wages for tipped workers by 320 percent. Workers expressed concern about the negative impacts on their earnings, citing public perceptions that their wages were now much higher, thus lowering their tip amounts. Tipped workers organized and testified at a 12-hour hearing, later described as “one of the longest hearings in legislative history” by a Maine representative. A bipartisan group of legislators repealed the referendum restoring the allowance of the tip credit statewide.^{40,41,42}
- In the city of Portland, ME, a group of tipped restaurant workers led the opposition to defeat Question D, a ballot measure that would have raised the local minimum wage to \$18 per hour and eliminated the city’s tip credit.^{43,44} Despite high-profile celebrity endorsements in favor of tip credit elimination, voters in Portland struck down the proposal by a nearly twenty-point margin.^{45,46}
- In New Mexico, restaurant service workers rallied against a state legislature bill that sought to eliminate the tip credit over time. Workers argued that eliminating the tip credit would reduce their take-home pay as tipped workers on average earn much higher than the current minimum wage, and ending the tip credit would turn “professional, commission-based sales people” into

⁴⁰ https://www.pressherald.com/2017/05/10/committee-votes-to-restore-restaurant-tip-credit/?rel=related#goog_rewarded

⁴¹ <https://www.pressherald.com/2018/01/11/maine-voices-after-success-in-getting-tip-credit-restored-in-maine-its-time-to-go-national/>

⁴² <https://www.themainewire.com/2017/03/12153/>

⁴³ <https://portlandphoenix.me/some-portland-restaurant-owners-employees-oppose-higher-minimum-wage/>

⁴⁴ <https://www.pressherald.com/2022/11/04/commentary-why-ill-be-voting-no-on-question-d/>

⁴⁵ <https://wgme.com/news/local/portland-restaurant-workers-rally-against-minimum-wage-increase>

⁴⁶ <https://www.newscentermaine.com/article/news/politics/maine-politics/election-results-for-portland-referendum-questions-portland-maine-election-results-2022/97-7e74877e-a60e-4ac2-9770-1f6d52e72c07>

“entry-level workers.”⁴⁷ In 2019, the state legislature and governor amended the minimum wage law to raise the tipped minimum to \$3.00 by 2023, but voted against the original provision to eliminate the tip credit, following bipartisan opposition.^{48,49}

- Tipped workers in New York State turned out in droves after Governor Cuomo discussed eliminating the state’s tip credit in 2018. At the time, a Facebook group of “Supporters of the Tip Credit in New York” maintained over 23,000 followers, and over 12,000 signers joined a petition to save the tip credit in the state.^{50,51} Currently, New York State and jurisdictions throughout, including New York City, continue to allow employers to take a tip credit in paying their tipped employees.
- Initiative 77, a ballot measure enacted to eliminate the tip credit in Washington D.C., received backlash from “a massive majority” of tipped servers and bartenders, who argued that the measure would reduce their overall take-home pay and jeopardize job opportunities.⁵² A year later, the D.C. city council voted with restaurant workers to repeal the measure and maintain the tipping system.⁵³ Opponents of the measure included Democratic D.C. mayor Muriel Bowser, as well as several of the city council’s Democratic members.^{54,55}

⁴⁷ https://www.santafenewmexican.com/opinion/my_view/servers-do-not-want-a-tipped-minimum-wage-increase/article_5564d648-58f9-54e4-aa75-a6487e9577db.html

⁴⁸ https://www.santafenewmexican.com/news/local_news/new-mexico-governor-signs-minimum-wage-increase/article_8747b39d-0161-5388-a5d7-2b2071fe91d4.html

⁴⁹ <https://nmpoliticalreport.com/2019/03/12/disagreement-continues-on-minimum-wage-legislation/>

⁵⁰ <https://totalfood.com/upstate-waitress-raczynski-nyc-tip-credit-elimination/>

⁵¹ <https://www.change.org/p/supporters-of-the-tip-credit-in-new-york>

⁵² <https://www.washingtonblade.com/2018/05/10/opinion-vote-no-initiative-77/>

⁵³ <https://www.nationalreview.com/2018/05/initiative-77-bad-deal-for-restaurant-servers/>

⁵⁴ https://www.washingtonpost.com/local/dc-politics/dc-officials-passed-a-law-to-help-tipped-workers-after-repealing-a-wage-hike-it-was-never-funded/2020/01/05/76710c76-2d68-11ea-9b60-817cc18cf173_story.html

⁵⁵ <https://wamu.org/story/18/05/17/bowser-d-c-council-members-oppose-away-tipped-wager-restaurant-workers/>

Failed Restaurant Experiments

Struggling restaurants in high-wage areas have felt the negative effects of rising tipped wages firsthand, and restaurants that once implemented a no-tipping-expected policy have largely abandoned this payment model. When stopping use of the tip credit to pay their workers, limited price flexibility forces restaurateurs to adopt a policy that states price-sensitive customers are not expected to leave tips, while meals are often priced higher to adapt to rising costs. In effect, menu price surcharges redistribute would-be tip earnings away from employees to funds that restaurant owners can use elsewhere.

The restaurant industry is widely known to experience razor-thin profit margins, often averaging 3 to 5 percent.⁵⁶ Full-service restaurants, which employ a large proportion of tipped servers, tend to fall on the lower side of that range. A Deloitte study of the full-service restaurant industry found these margins may be even slimmer: pre-tax restaurant income represented as low as 1.8 percent of full-service restaurants where the average check was over \$25.⁵⁷

Economists find that in areas where tipped wages have increased, the strain on business owners costs jobs and even shuts down establishments altogether. Evidence areas with already-high tipped wages supports this finding:

- Restaurant owners in San Francisco called upon the city's Board of Supervisors to address numerous obstacles to staying in business, including an annually-indexed minimum wage, lack of tip credit allowance, mandated paid sick leave, heavily regulated employer health care spending, calling the situation "death by a thousand cuts."⁵⁸ In 2019, restaurant closings surpassed the number of openings by 9 percent. One long-time restaurant owner implored: "We need to do something now, or we will be gone."⁵⁹ Another commented on the future of the city's restaurant industry and jobs: "we've started to see San Francisco as a non-viable market."⁶⁰
- Emeryville, CA, home to one of the highest minimum wage rates in the country, identified that restaurants have struggled to survive with wage hikes in the past

⁵⁶ <https://www.restaurant365.com/blog/what-is-the-average-profit-margin-for-a-restaurant/>

⁵⁷ <https://s3.amazonaws.com/s3.documentcloud.org/documents/291534/t288-nrarept2010.pdf>

⁵⁸ <https://sf.eater.com/2019/9/17/20869268/sf-restaurants-meet-city-hall-board-of-supervisors-crisis>

⁵⁹ <https://www.wsj.com/articles/how-san-francisco-is-killing-its-restaurants-11571351715>

⁶⁰ <https://sf.eater.com/2019/9/17/20869268/sf-restaurants-meet-city-hall-board-of-supervisors-crisis>

few years. A study on the city’s food service sector found that it was becoming rare to find any businesses that existed when the city’s annual minimum wage increases were passed in 2015, and still were in business in 2019. A survey of Emeryville restaurants revealed that more than half had decreased worker hours and one-third had decreased the number of employees at their establishments in response to the 2015 minimum wage ordinance.⁶¹

- To ease some of the burden of rising labor costs, some restaurants move toward a “hybrid” service model, allowing customers to seat themselves and pick up meals and utensils, thereby cutting down on tipped staff.⁶² In New York City, a survey of restaurants in 2019 found that more than three-quarters of full-service respondents reduced employee hours in response to 2018 wage increases, and more than one-third eliminated jobs.⁶³

The tipping system also allows employers to maintain entry-level jobs that are critical to providing work experience to first-time employees. Entry-level jobs are important to beginning a track of earnings for the starting employee, and also incentivizes employers to hire first-time workers instead of opting for more experienced employees due to higher pay requirements.

What happened in restaurants that tried to eliminate tipping? Some restaurants have tried to eliminate tipping for their servers and bartenders, and many have returned to the traditional tipping system based on responses from staff and customers.

- **Union Square Hospitality Group, New York City:** CEO Danny Meyer announced his restaurants would shift away from allowing tip credits and tipping in 2015 and has partnered with activists to urge other restaurants to do the same.⁶⁴ After making this change, Meyer announced that he had lost as many as 40 percent of his “legacy” front-of-house staff—tipped employees who he described as having worked with him for at least five years.⁶⁵ Meyer quickly reversed this decision.⁶⁶ Servers described the shift away from tipping as “painful,” adding, “It wasn’t what we signed up for financially.” In a later interview on the future of the restaurant industry with the Washington

⁶¹ <https://evilleeye.com/news-commentary/council-considers-minimum-wage-pause-after-mills-study-reveals-struggling-local-emeryville-restaurants/>

⁶² <https://www.nytimes.com/2018/06/25/dining/san-francisco-restaurants-service.html?auth=login-email&login=email>

⁶³ <https://thenycalliance.org/information/survey-results-labor-costs>

⁶⁴ <https://www.nrn.com/people/danny-meyer-talks-tipping-leadership-and-trust>

⁶⁵ <https://ny.eater.com/2018/2/6/16978464/danny-meyer-tipping-staff-turnover>

⁶⁶ <https://www.nytimes.com/2020/07/20/dining/danny-meyer-no-tips.html>

Post, Meyer noted that menu price increases to cover the rising cost of a flat minimum wage policy were unsustainable.⁶⁷

- **Craft, New York City:** Owner Tom Colicchio also reversed a flat minimum wage policy for his previously tipped employees, implementing “higher than typical prices” on the menu for lunch services. Upon announcing the new policy, Colicchio announced he would expand the policy to dinner service if it proved sustainable.⁶⁸ Yet, in just six months the regular tipping policy was restored after receiving pushback from customers and employees alike.⁶⁹ On Twitter, Colicchio later reflected that “servers would have to make \$55 per hour to make up for gratuities” under the no-tipping policy.⁷⁰
- **Grand Central Station, New York City:** Claus Meyer’s restaurant began a policy of not accepting tips for service workers, but ultimately it abandoned the practice as Meyer noticed the policy drove away business and alienated customers.⁷¹
- **Momofuku Nishi, New York City:** Momofuku group owner David Chang experimented with a no-tipping policy, but reverted back within 5 months, stating a tipping model would “benefit guests and staff” in a company Tumblr post.^{72,73} Restaurants that have tried and failed to maintain a no-tipping policy have learned that their employees are generally opposed to it. They have also learned that customers also prefer the current tipping system over flat surcharges and menu price increases.
- **Momofuku Ko, New York City:** David Chang’s Momofuku group announced a second restaurant would abandon its no-tipping policy, which raised menu prices by 20 percent to cover a flat hourly wage for restaurant service staff. In the announcement, the restaurant group expressed a desire to be more “competitive” after experiencing hiring challenges for front-of-house service staff, and stated eliminating tipping “never really worked.”⁷⁴

⁶⁷ <https://www.washingtonpost.com/washington-post-live/2021/03/02/path-forward-restaurant-industry-with-danny-meyer-founder-ceo-union-square-hospitality-group/>

⁶⁸ <https://ny.eater.com/2015/9/15/9329193/tom-colicchio-eliminates-tipping-during-crafts-lunch-service-dinner>

⁶⁹ <https://nypost.com/2017/04/11/why-restaurant-tipping-will-never-go-away/>

⁷⁰ <https://twitter.com/tomcolicchio/status/1419750854370938882>

⁷¹ <https://www.newyorker.com/culture/annals-of-gastronomy/the-limitations-of-american-restaurants-no-tipping-experiment>

⁷² <https://www.foodandwine.com/news/david-chang-momofuku-ko-no-tipping-policy>

⁷³ <https://momofuku.tumblr.com/post/145356265388/nishibrunch>

⁷⁴ <https://ny.eater.com/2022/6/13/23166180/momofuku-ko-no-tipping-gratuities-labor-nyc-restaurants>

- **Zuni Cafe, San Francisco:** Owner Nate Norris announced to reopen after the pandemic, his restaurant would replace traditional tipping with a 20 percent service charge added to customers bills, with a no-tipping-required policy. Employees were so concerned about the switch, they reached out to local media to express their frustrations, including being “completely blindsided,” unable “to get my rent and necessities paid with what they were offering,” and that the \$24 per hour offer was far below what they normally made on tips.⁷⁵ One employee estimated the new policy would cost him \$30,000 in annual earnings.⁷⁶
- **Bar Agricole and Trou Normand, San Francisco:** Owner Thad Vogler implemented a no-tipping policy in two restaurants and raised menu prices by 20 percent to offset the price of raising the hourly wage for service staff. In less than a year, Vogler reported 70 percent of his service staff had left their positions, due to decreased total hourly earnings. Servers reported earning as much as \$45 per hour when tips were factored in, but this amount decreased significantly to as low as \$20 per hour when the no-tipping policy was implemented.⁷⁷
- **Comal restaurants, Berkeley and Oakland:** Owner John Paluska originated as “one of the leading voices” for the no-tipping trend in the Bay Area of California, and instituted a 20 percent service fee instead of traditional tipping prior to the pandemic. During the pandemic, Comal shifted to higher pricing for takeout and delivery orders. Reopening after the pandemic, Paluska determined the no-tipping policy was “no longer viable.”⁷⁸
- **Joe’s Crab Shack, national chain:** The casual dining chain stopped tipping and paying workers using a tip credit at eighteen locations, but quickly reinstated tipping less than a year later.⁷⁹

⁷⁵ <https://www.sfgate.com/food/article/2021-05-San-Francisco-Zuni-Cafe-no-tipping-service-16148343.php>

⁷⁶ <https://sf.eater.com/2021/5/25/22425234/zuni-cafe-cut-tips-lost-servers-reopening-indoor-dining>

⁷⁷ <https://money.cnn.com/2016/01/19/pf/no-tipping-reversed-bar-agricole-trou-normand/index.html>

⁷⁸ <https://sf.eater.com/2021/5/21/22447660/comal-tipping-returns-oakland-east-bay>

⁷⁹ <https://www.newyorker.com/culture/annals-of-gastronomy/the-limitations-of-american-restaurants-no-tipping-experiment>

Case Study: Eliminating the Tip Credit in Washington, D.C.

In November 2022, voters approved Initiative 82, a ballot measure to eliminate the District of Columbia tip credit and more-than-triple the required tipped minimum wage by 2027. The new mandate went into effect beginning May 1, 2023, when the tipped minimum wage rose from \$5.35 per hour to \$6.00 per hour. The wage will rise \$2.00 annually until it equals the regular minimum wage rate by July 2027, which is already rising annually according to inflation.

After the measure’s passage, restaurant owners expressed concerns about the required changes that would come with the implementation of Initiative 82:

- Noe Landini, owner of Junction Bistro Bar and Bakery on Capitol Hill, noted the drastic increases will cause a “domino effect” of higher costs for customers as restaurant owners struggle with drastically higher wage bills amid narrow profit margins.⁸⁰
- Geoff Tracy, owner of Chef Geoff’s restaurants, described his tipped employees currently earn up to \$40 per hour through tips, and eliminating the tip credit system would force restaurants to impose restaurant-managed service charges and drive tipping down.⁸¹
- Jamie Leeds, owner and chef at Hank’s Oyster Bar, declared “I will not open another restaurant in D.C.” He also noted that to make up revenue he may switch to automated, quick-service models in existing restaurants due to the rising wage bill for tipped restaurant staff.⁸²
- Mark Bucher, co-owner of Medium Rare, said it will be impossible to raise prices to account for the wage hike, and service charges also subject to the city’s sales tax will drive away foot traffic for restaurants – which could lead to fewer tips for restaurant service staff.⁸³

⁸⁰ <https://www.dailysignal.com/2022/11/10/dc-voters-pay-hike-for-tipped-employees-will-drive-away-customers-restaurant-owner-says/>

⁸¹ <https://www.pbs.org/newshour/politics/proposal-to-change-pay-structure-for-tipped-workers-in-washington-dc-passes-oved-by-voters-again>

⁸² <https://www.washingtonian.com/2022/11/09/initiative-82-has-passed-how-5-restaurant-owners-plan-to-adapt/>

⁸³ <https://wjla.com/news/local/restaurant-workers-tips-tipped-dc-minimum-wage-election-day-dmv-bar-bartender-vote-voters-district-advocates-hourly-wage-initiative-employers-congress-server>

- Ashok Bajaj, owner of Rasika and several other DC restaurants, noted the change could cost him as much as \$300,000 more per year to maintain his current staffing levels. He added: “Do you really think the restaurant makes that much money to absorb that? Not mine.”⁸⁴
- Nizam Ali, co-owner of historic Ben’s Chili Bowl and full-service restaurant Ben’s Next Door, expressed fears that raising prices to cover the drastic increases would send customers to neighboring Maryland and Virginia – leaving D.C. restaurants in a difficult position to adapt.⁸⁵

Despite activists dismissing these concerns, District of Columbia restaurants have begun implementing changes to adjust to the new mandates. A D.C.-area Reddit comment thread labeled “Restaurant Service Charge Tracker” has compiled user submissions of all restaurants implementing a service charge, automatic gratuity, or other fee to cover the cost of rising tipped minimum wages. As of March 2023, the list includes over 140 restaurants that have instituted one of these additional charges.⁸⁶

Additionally, concerned residents have taken to online forums to express confusion about whether or not to tip, what service charges actually mean, and what the aftermath will be for D.C.’s tipped restaurant workers.⁸⁷ Comments include:

- “Would this mean ending tipping?”
- “What I’ve been seeing from a lot of people is they assume this means they don’t really need to tip anymore. If that’s the case then what was the point of the initiative?”
- “Tipping culture will probably be worse after this.”
- “I voted yes for this bill, but that’s not to say there won’t be negative repercussions. Prepare to see mom-and-pop, non-corporate establishments get crushed...”
- “I do think this will cause small restaurants/business owners to hire less, and I do feel that it will cause the overall money that my friends make to be far less.”
- “I do think it will reduce demand at restaurants and will give rise to a sense of ‘eating out is so expensive in DC now! Because people will not consider that they’re essentially paying the same, it’s just that their tip is baked into the price.”

⁸⁴ <https://www.washingtonian.com/2022/11/09/initiative-82-has-passed-how-5-restaurant-owners-plan-to-adapt/>

⁸⁵ <https://www.washingtonian.com/2022/11/09/initiative-82-has-passed-how-5-restaurant-owners-plan-to-adapt/>

⁸⁶ https://www.reddit.com/r/washingtondc/comments/10547wd/restaurant_service_charge_tracker/?utm_source=share&utm_medium=ios_app&utm_name=iossmf

⁸⁷ https://www.reddit.com/r/washingtondc/comments/yqh1j1/comment/ivorfyz/?utm_source=share&utm_medium=web2x&context=3

MEASURING THE IMPACT OF TIP CREDIT ELIMINATION IN WASHINGTON, D.C.

Ahead of implementing tip credit elimination beginning May 1, 2023 in the District of Columbia, a survey of restaurant owners found that a large majority had already begun bracing for the impacts by adapting their employment, service, and tipping models.⁸⁸

The survey found:

- A majority of restaurants said they will be forced to raise menu prices (80% by 2027), reduce staff or consolidate positions (72% by 2027) and reduce employee hours (70% by 2027).
- Some restaurants indicated they will take additional measures to offset tipped minimum wage increases by 2027, including:
 - Seventy percent said they will introduce automatic service charges to customers' bills,
 - Forty-six percent said they would introduce other automatic fees for customers (i.e. "Fair Wage" fee),
 - Forty-six percent said they would open any future locations in surrounding jurisdictions, such as Maryland or Virginia,
 - Thirty-eight percent said they would substitute automation or self-service technology for employee tasks,
 - Twenty-five percent said they would change their restaurants' service model to include more quick service or counter service,
 - Twenty-two percent said they would adopt a no-tipping required policy, and
 - Thirty-one percent said they would have to close one or more locations.
- Eighty-five percent of restaurant operators believe increases to the tipped minimum wage will force them to decrease the number of tipped workers in their restaurants by 2027.
- Three-fourths (74%) think it will limit or reduce raises for kitchen and other non-tipped staff (somewhat likely, 19%; very likely, 55%).

⁸⁸ https://epionline.org/pp/uploads/2023/04/Impact-of-Eliminating-Tip-Credit-for-DC_4-25.pdf

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