

TIP CREDIT IMPORTANCE FOR INDUSTRY AND EMPLOYEE EARNINGS

The tip credit is important as it helps businesses in industries reliant on tipping to manage labor costs while ensuring employees have the potential to earn a fair income. By allowing employers to offset a portion of their employees' wages with tips received, the tip credit enables businesses to remain competitive, keep menu prices affordable, and potentially create more job opportunities.

- **Flexibility for Employees:** Tipped workers often have flexibility in their schedules and may have the opportunity to earn more than they would with a traditional hourly wage. This flexibility can be especially valuable for individuals balancing multiple jobs, education, or family responsibilities.
- **Job Opportunities:** A lower base wage may encourage employers to hire more staff, potentially creating more job opportunities within the industry. This can be especially beneficial in sectors with high turnover rates or during periods of economic downturn when job creation is critical.
- **Incentive for Better Service:** Tipping can serve as an incentive for workers to provide better service since their income is directly tied to customer satisfaction. This can lead to improved customer experiences and potentially higher earnings for employees who excel in their roles.
- **Competitive Wages:** In industries where tipping is prevalent, such as restaurants and hospitality, the tipped minimum wage allows employers to remain competitive by keeping menu prices lower while still providing an opportunity for employees to earn a decent income through tips.
- **Cost Savings for Employers:** Employers in industries where tipping is common may benefit from a lower base wage since they can offset labor costs by paying employees less and relying on tips to make up the difference. This can be particularly advantageous for businesses operating on thin profit margins.

TRUTH OR MYTH

Facts about the tipped minimum wage

MYTH Employees earn below min. wage without good tips.

TRUTH Employers are required to make up the difference by law.



MYTH Tipped employees earn less than those in other industries.

TRUTH The average tipped employee makes about \$26/hr.



MYTH People are becoming less positive about tipping culture.

TRUTH 3/4 of people prefer tipping at full-service restaurants.



MYTH Ending the tip credit would provide a raise for employees.

TRUTH Ending the tip credit would lower overall earned wages.

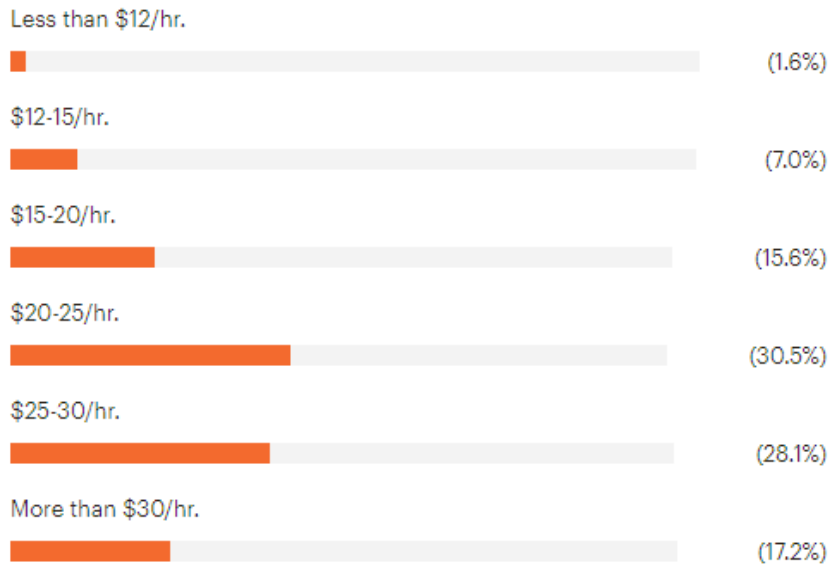


Employee Protections:

If a tipped employee's earnings, including both their base wage and tips, fall below the local minimum wage for any given hour worked, the employer is required to compensate for the shortfall. It's important to clarify that the idea that tipped employees ever earn less than minimum wage is incorrect. Removing the tip credit would not equate to a raise in wages for the vast majority of tipped workers.

The Fair Labor Standards Act (FLSA) offers robust safeguards to ensure that tipped employees always receive at least the local minimum wage. Employers who fail to pay tipped employees appropriately face financial penalties.

Average Wage of a Server in Michigan



Insights:

The average server in Michigan earns significantly more than the current minimum wage of \$10.33 per hour. If the tipped minimum wage is abolished, more than 65% of bar/restaurant owners would be forced to lay off staff, 38% would consider reducing the amount of hours their business is open, 52% would add a service charge to offset added expenses, and 89% would raise their menu prices.

Survey Conducted by MLBA in August 2024.



Loss of Jobs:

- 22% of bars/restaurants will lay off 10% of staff
- 18% of bars/restaurants will lay off 20% of staff
- 15% of bars/restaurants will lay off 30% of staff
- 9% of bars/restaurants will lay off 50%+ of staff

68%

of bar/restaurant owners are fearful they may have to permanently close their doors forever.

We estimate 120,000+ Michiganders will lose their jobs.

How the Industry is Reacting:

“We work hard and put up with so much from customers. If our tips are reduced, it won’t be worth it anymore.”

“Many servers work a tipped job for secondary income. If the tips are gone, they will be too.”

“We operate on the border of Indiana. We will lose all of our servers.”

“The new minimum wage won’t make up for lost tips.”

“My staff are already talking about finding different jobs.”

“Our servers are upset with the change and concerned for their future. They’re worried they won’t be able to pay their bills.”