

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE
Revised

House Bill 727 (Delegates Barve and Gordon)
Economic Matters

Referred to Finance

Tipped Employees - Computation of Wages

This amended bill limits the tip credit amount that employers may include as part of the wages of a tipped employee to no more than \$2.77 per hour. The remainder of the federal minimum wage must be paid to tipped employees by the employer. The bill is effective September 1, 1997.

Fiscal Summary

State Effect: None. The bill would not directly affect State operations or finances.

Local Effect: None.

Small Business Effect: Meaningful impact on small business as discussed below.

Fiscal Analysis

Bill Summary: Employers would continue to pay a minimum of \$2.38 per hour to tipped employees because the bill allows a \$2.77 per hour tip credit toward tipped employees' guaranteed earnings of \$5.15 per hour under the federal minimum wage. Thus, the bill has the effect of decreasing the employer's wage obligation to a tipped employee from \$2.58 to \$2.38 by increasing the amount of per hour tip credit an employer can use in calculating the employer's wage obligation from \$2.58 to \$2.77 on and after September 1, 1997.

Background: Under current law, an employer may credit a certain amount of tips received by employees against the employee's minimum wage obligation. This practice is only allowed when an employee earns enough tips to supplement the average hourly wage at least up to the minimum wage level. Maryland currently adopts the federal minimum wage as the State minimum wage, and requires employers to pay at least 50% of the federal minimum wage or \$2.38 per hour (50% of \$4.75) to tipped employees. Absent the bill, the rate paid to

tipped employees would increase to \$2.58 per hour on September 1, 1997 when the federal minimum wage increases to \$5.15 per hour.

Small Business Effect: It is assumed that the majority of tipped employees are employed by eating and drinking establishments throughout the State. The majority of these type of establishments are small businesses. This bill could have a meaningful impact on these businesses because it maintains the required minimum wage for tipped employees at \$2.38 per hour instead of increasing to \$2.58 based on the increase in the federal minimum wage from \$4.75 to \$5.15 per hour on or after September 1, 1997. This would avoid increased payroll costs of \$.20 per hour per tipped employee provided the employee earned the minimum wage between the hourly wage and tips. This would maintain expenditures and may give these employers an economic advantage over their competitors such as fast food restaurants and all-you-can-eat buffets that do not employ tipped wait staff and would experience increased wage expenditures based on the increased federal minimum wage.

Information Source(s): Department of Labor, Licensing, and Regulation (Division of Labor and Industry)

Fiscal Note History: First Reader - February 12, 1997

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Analysis by: Shelley Finlayson

Reviewed by: John Rixey

Direct Inquiries to:

John Rixey, Coordinating Analyst

(410) 841-3710

(301) 858-3710