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HB 1400: No Tax on Tips Act

House Economic Matters Committee | March 4, 2025

Position: **SUPPORT** with amendments

The National Women's Law Center (NWLC) submits this testimony in support of HB 1400, the No Tax on Tips Act, with amendments. NWLC strongly supports the provisions of HB 1400 that will raise Maryland's minimum wage to \$20 per hour by July 1, 2028, and require employers in Maryland to pay tipped workers the full minimum wage, before tips, by the same date. However, we oppose exempting tips from state income taxes and urge the Committee to amend this provision in the bill.

Since 1972, NWLC has fought for gender justice—in the courts, in public policy, and in our society—working across the issues that are central to the lives of women and girls. NWLC advocates for improvement and enforcement of our nation's employment and civil rights laws, with a particular focus on the needs of LGBTQIA+ people, women of color, and women with low incomes and their families. These communities are robustly represented in the tipped workforce, and NWLC consistently advocates for policies that will improve and stabilize pay in tipped jobs. Ensuring that *all* workers in Maryland are entitled to the same fair minimum wage, regardless of tips, is a critical way to boost women's paychecks, combating poverty and persistent racial and gender pay gaps.

Women working full time, year-round in Maryland typically make only 86 percent of what their male counterparts make, leaving a wage gap of 14 cents on the dollar.¹ This wage gap varies by race and is far larger for many women of color; for example, Black women working full time, year-round in Maryland are paid just 68 cents for every dollar paid to white, non-Hispanic men, while Latinas are paid just 50 cents—one of the largest wage gaps in the country.² One driver of these wage gaps is women's overrepresentation in low-paid jobs.³ In Maryland, nearly two in three workers in the state's lowest-paying jobs are women.⁴ Women are roughly two-thirds (68%) of tipped workers in Maryland, and more than one-third (35%) of Maryland's tipped workers are women of color.⁵ Especially in states like Maryland where employers can pay just a few dollars an hour before tips, tipped workers experience poverty at far higher rates than the workforce overall.⁶ Women who rely on tips rather than wages for the bulk of their income also often feel compelled to tolerate inappropriate, and sometimes abusive, behavior from customers, and women's lack of economic power in these workplaces perpetuates the already pervasive culture of sexual harassment in industries that employ large numbers of tipped workers.⁷

Today, while Maryland law continues to allow employers to pay tipped workers a base wage of just \$3.63 an hour, many question whether they should stay in a profession that leaves them vulnerable to harassment and scrambling to pay their bills⁸—and many who have already left question whether they should return.⁹ Meanwhile, since D.C. voters overwhelmingly approved Initiative 82 on the November 2022 ballot, the District of Columbia has been raising its tipped minimum cash wage; D.C.'s tipped wage is now \$10 per hour, and it will continue to rise on July

1 each year until it matches the regular minimum wage in 2027.¹⁰ If Maryland does not offer competitive wages for tipped workers, employers in neighboring counties are likely to see an exodus of workers from Maryland's restaurant industry to more attractive pay in D.C.¹¹ But ensuring that tipped workers can count on a full minimum wage, with tips on top, can help attract and retain workers in Maryland's restaurants and other tipped jobs.

Raising wages for Maryland's tipped workers will also benefit children, families, and the state's economy. Especially in light of ongoing inflation, families across the state are still struggling to afford the basics. HB 1400 would give many of these families a much-needed income boost—which research shows can also benefit children's health and well-being.¹² Decades of research studying the impact of state and local minimum wage increases also show that these measures consistently improve incomes for workers and their families without costing jobs.¹³

In September 2024, a report from the Center for State Policy Analysis at Tufts University affirmed that to date, the data on Initiative 82's implementation does not show major changes in industry trends: Since the initiative's passage, D.C. has experienced a slight decrease in bartenders, an increase in restaurant servers, and "earnings that are broadly consistent with recent years."¹⁴ Likewise, in the jurisdictions that have already adopted One Fair Wage, this policy has not harmed growth in the restaurant industry or tipped jobs. From 2011 to 2019, One Fair Wage states had *stronger* restaurant growth than states that had a lower tipped minimum wage.¹⁵ And while the pandemic hit the leisure and hospitality sector hard, the recovery has been swifter in One Fair Wage states: From January 2021 to May 2023, One Fair Wage states saw 53% growth in the leisure and hospitality industry, compared with just 19% growth in states with lower wages for tipped workers.¹⁶ Indeed, because underpaid workers spend much of their extra earnings in their communities, raising wages for tipped workers can boost local economies and spur small business growth.¹⁷ And higher wages can further benefit employers by reducing turnover and increasing productivity.¹⁸

However, we strongly oppose the provisions of this bill that exempt tips from state income taxes. Establishing a \$20 minimum wage that will apply to tipped and non-tipped workers alike is an important step to improve economic security for working people and families across the state of Maryland. But exempting tips from taxes would do nothing for Marylanders with low and moderate incomes who don't work in tipped jobs but similarly struggle to make ends meet, such as child care workers, home health care workers, and retail workers—jobs in which the workforce, like the tipped workforce, is predominantly women and disproportionately women of color.¹⁹ A tax exemption for tips would also incentivize employers to classify more people as tipped workers and invite abuse from high income earners.

Given the volatile and inadequate hours, minimal benefits, and other challenges common to low-paid jobs—along with the high cost of living in Maryland—even a \$20 minimum wage will not always be enough for workers and their families to get by. Policies like expanded refundable tax credits can help *all* low-paid workers support themselves and their families with dignity and ensure that Maryland's tax code treats workers fairly, whether their income is from wages or tips. But a tax exemption for tipped income is a fundamentally inequitable policy, and we urge this Committee to strike it from this bill.

HB 1400 will help working families thrive by raising Maryland's minimum wage to \$20 per hour and requiring employers in Maryland to pay tipped workers the full minimum wage, before tips. Because women are the majority of workers who will see their pay go up, wage gaps will likely narrow as well.²⁰ If amended to remove the tax exemption for tipped income, this bill will diminish historic inequities in Maryland and ensure that women can work with equality, safety, and dignity—starting with equal and adequate pay.

We respectfully request a favorable report of HB 1400 with amendments.

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Please do not hesitate to contact Diana Ramirez at dramirez@nwlc.org if you have questions or require additional information. Thank you for your consideration.

¹ *The Wage Gap by State for Women Overall*, NWLC (Sept. 2024), <https://nwlc.org/wp-content/uploads/2024/09/Wage-Gap-State-by-State-Women-Overall-9.20.24v2.pdf>.

² *The Wage Gap by State for Black Women*, NWLC (Feb. 2025), <https://nwlc.org/wp-content/uploads/2024/03/Wage-Gap-State-by-State-Black-Women-2.12.2025.pdf>, and *The Wage Gap by State for Latinas*, NWLC (Feb. 2025), <https://nwlc.org/wp-content/uploads/2024/03/Wage-Gap-State-by-State-Latina-Women-2.12.2025.pdf>. See also Sarah Javaid, *A Window Into the Wage Gap: What's Behind It and How to Close It*, NWLC (Jan. 2024), <https://nwlc.org/wp-content/uploads/2023/01/2023-Wage-Gap-Factsheet.pdf>.

³ See generally, e.g., Jasmine Tucker & Julie Vogtman, *Hard Work Is Not Enough: Women in Low-Paid Jobs*, NWLC (July 2023), <https://nwlc.org/resource/when-hard-work-is-not-enough-women-in-low-paid-jobs/>.

⁴ See *id.*

⁵ NWLC calculations based on 2018-2022 American Community Survey five-year estimates using IPUMS. Women of color includes all women who did not self-identify as white, non-Hispanic women. Figures include all workers employed in a set of predominantly tipped occupations identified by the Economic Policy Institute (EPI). See Dave Cooper, Zane Mokhiber & Ben Zipperer, EPI, *Minimum Wage Simulation Model Technical Methodology* (Feb. 2019), <https://www.epi.org/publication/minimum-wage-simulation-model-technical-methodology/>.

⁶ See generally *One Fair Wage: Women Fare Better in States with Equal Treatment for Tipped Workers*, NWLC (June 2024), <https://nwlc.org/resource/one-fair-wage/>.

⁷ See, e.g., *Unlivable: Increased Sexual Harassment and Wage Theft Continue to Drive Women, Women of Color, and Single Mothers Out of the Service Sector*, ONE FAIR WAGE (April 2022), <https://onefairwage.squarespace.com/publications/unlivable>; Catrin Einhorn & Rachel Abrams, *The Tipping Equation*, N.Y. TIMES (March 12, 2018), <https://www.nytimes.com/interactive/2018/03/11/business/tippingsexual-harassment.html>; Amanda Rossie, Jasmine Tucker & Kayla Patrick, *Out of the Shadows: An Analysis of Sexual Harassment Charges Filed by Working Women*, NWLC 16-17 (Aug. 2018), <https://nwlc-ci49tixgw5lbab.stackpathdns.com/wp-content/uploads/2018/08/SexualHarassmentReport.pdf>; Stefanie K. Johnson & Juan M. Madera, *Sexual Harassment Is Pervasive in the Restaurant Industry. Here's What Needs to Change*, HARV. BUS. REV. (Jan. 18, 2018), <https://hbr.org/2018/01/sexual-harassment-is-pervasive-in-the-restaurant-industry-heres-what-needs-to-change>.

⁸ See *One Fair Wage: Ending a Legacy of Slavery and Addressing Maryland's Restaurant Staffing Crisis*, ONE FAIR WAGE (Jan. 2023), https://static1.squarespace.com/static/6374f6bf33b7675afa750d48/t/648c5fd66574923f49fa14d6/1686921174546/OFW_EndingLegacySlavery_MD-1.pdf.

⁹ See, e.g., Abha Bhatarai & Maggie Penman, *Restaurants Can't Find Workers Because They've Found Better Jobs*, WASH. POST (Feb. 3, 2023), <https://www.washingtonpost.com/business/2023/02/03/worker-shortage-restaurants-hotels-economy/>.

¹⁰ See *Washington, D.C., Initiative 82, Increase Minimum Wage for Tipped Employees Measure (2022)*, BALLOTPEdia, [https://ballotpedia.org/Washington,_D.C.,_Initiative_82,_Increase_Minimum_Wage_for_Tipped_Employees_Measure_\(2022\)](https://ballotpedia.org/Washington,_D.C.,_Initiative_82,_Increase_Minimum_Wage_for_Tipped_Employees_Measure_(2022)).

¹¹ See *One Fair Wage: Ending a Legacy of Slavery and Addressing Maryland's Restaurant Staffing Crisis*, *supra* note 8.

¹² See generally, e.g., *Set Up for Success: Supporting Parents in Low-Wage Jobs and Their Children*, NWLC (June 2016), <https://nwlc.org/resource/set-up-for-success-supporting-parents-in-low-wage-jobs-and-their-children/>; George Wehby et al., *Effects of the Minimum Wage on Child Health*, 8 AM. J. HEALTH ECON. 412 (2022), <https://doi.org/10.1086/719364>.

¹³ See, e.g., Arindrajit Dube, *Impacts of Minimum Wages: Review of the International Evidence* (Nov. 2019), <https://www.gov.uk/government/publications/impacts-of-minimum-wages-review-of-the-international-evidence>; Doruk Cengiz et al., *The Effect of Minimum Wages on Low-Wage Jobs*, 134 Q. J. ECON. 1405-54 (Aug. 2019), <https://academic.oup.com/qje/article/134/3/1405/5484905> (examining 138 state minimum wage changes in the U.S. between 1979 and 2016 and finding that both the typical minimum wage increases and also the highest state-level minimum wage increase significantly raised wages without reducing the employment of low-wage workers).

¹⁴ Evan Horowitz, *Question 5: The Minimum Wage for Tipped Workers*, TUFTS CTR. STATE POLICY ANALYSIS (Sept. 2024), https://cspa.tufts.edu/sites/g/files/lrezom361/files/2024-09/cSPA_2024_Q5_tipped_minimum_wage.pdf.

¹⁵ Ben Zipperer, *The Impact of the Raise the Wage Act of 2023*, ECON. POLICY INST. (July 2023), <https://files.epi.org/uploads/270622.pdf>.

¹⁶ Jessica Vela, *Higher State-Level Minimum Wages Aid in Faster Jobs Recovery*, CTR. FOR AM. PROGRESS (July 2023), <https://www.americanprogress.org/article/higher-state-level-minimum-wages-aid-in-faster-jobs-recovery/>.

¹⁷ See, e.g., Zoe Willingham, *Small Businesses Get a Boost from a \$15 Minimum Wage*, CTR. FOR AM. PROGRESS (Feb. 25, 2021), <https://www.americanprogress.org/issues/economy/reports/2021/02/25/496355/small-businesses-get-boost-15-minimum-wage/>; William M. Rodgers III & Amanda Novello, *Making the Economic Case for a \$15 Minimum Wage*, CENT. FOUND. (Jan. 2019), <https://tcf.org/content/commentary/making-economic-case-15-minimum-wage/>.

¹⁸ See, e.g., Holly Sklar, *Business and Minimum Wage Research Summary*, BUS. FOR A FAIR MIN. WAGE (April 2023), <https://www.businessforafairminimumwage.org/sites/default/files/BFMW%20Business%20and%20Minimum%20Wage%20Research%20Summary%20April%202023.pdf>; Kate Bahn & Carmen Sanchez Cumming, *Improving U.S. Labor Standards and the Quality of Jobs to Reduce the Costs of Employee Turnover to U.S. Companies*, WASH. CTR. FOR EQUITABLE GROWTH (Dec. 2020), <https://equitablegrowth.org/improving-u-s-labor-standards-and-the-quality-of-jobs-to-reduce-the-costs-of-employee-turnover-to-u-s-companies/>.

¹⁹ See Tucker & Vogtman, *Hard Work Is Not Enough*, *supra* note 3.

²⁰ A higher minimum wage generally would narrow the wage distribution, effectively narrowing the wage gap. Nicole M. Fortin & Thomas Lemieux, *Institutional Changes and Rising Wage Inequality: Is There a Linkage?*, J. Econ. Perspectives Vol. 11, No. 2, 75-96, at 78 (Spring 1997), <http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.11.2.75>; Francine D. Blau & Lawrence M. Kahn, *Swimming Upstream: Trends in the Gender Wage Differential in the 1980s*, J. LABOR ECON., Vol. 15, No. 1, 1-42, at 28 (Jan. 1997), https://www.jstor.org/stable/2535313?seq=1#page_scan_tab_contents; *Minimum Wages*, Ch. 7.3: *Effects on Gender Pay-Gaps*, INT'L LABOR ORG., https://www.ilo.org/global/%20topics/wages/minimum-wages/monitoring/WCMS_473657/lang--en/index.htm (accessed Feb. 23, 2023). See also Jesse Wursten & Michael Reich, *Racial Inequality and Minimum Wages in Frictional Labor Markets*, IRLE Working Paper no. 101-21 (Feb. 2021), <http://irle.berkeley.edu/files/2021/02/Racial-Inequality-and-Minimum-Wages> (finding that minimum wage increases between 1990 and 2019 reduced Black–white wage gaps by 12% overall, and by 60% for workers with a high school diploma or less; while wage increases boosted earnings for men and women of all races, Black workers, and particularly Black women, experienced the greatest gains).