



February 28, 2024

The Honorable C.T. Wilson
Economic Matters Committee
231 Taylor House Office Building
Annapolis, Maryland 21401

RE: HB 1400 - Local Government - No Tax on Tips Act

Position: Oppose

Chairman Wilson and Members of the Committee,

My name is Matt Libber, and I am the Legislative Committee Chair for the Maryland Tourism Coalition (MTC). I am writing to express MTC's strong opposition to House Bill 1400.

MTC understands the intent of this bill but believes it will have negative consequences that far outweigh the intended benefits to tipped employees. In fact, the long-term effect of this bill could mean currently tipped workers would face a reduction in income. The potential benefit of no tax on tips would not be realized because the bill's phase-out of the tip credit would effectively replace tipped income with regular wages, which would be subject to Maryland income tax.

Regarding the disclosure of service fees (a.k.a. service charges), it's important to note the difference between service charges and tips. Under federal law and IRS rules, service charges added to customer checks are part of the business's gross receipts and are not the same as tips. Restaurants may choose to distribute all or part of such service charges to employees as regular wages (not tips). The disclosure requirement in this bill seems to acknowledge that many restaurants will be forced to impose service charges to help cover the higher labor costs associated with phasing out the tip credit.

The proposed increase in minimum wage would also have a disproportional effect on restaurants as they are so labor intensive. Maryland already has one of the highest minimum wages in the country. Many of the restaurants in the state are already struggling to cover the increased labor costs due to the increase to \$15.00 that was implemented in January 2024. The rising labor cost has and will continue to cause restaurant closures throughout the state if the minimum wage is again increased rapidly as it would under this bill. Restaurants are an essential part of the tourism ecosystem of Maryland. Restaurants play a key element of the overall visitor experience. If the price of food service continues to rise due to the high labor costs it will help drive down visitation to Maryland. Lower visitation means lower economic activity and lower much needed tax revenue for the State and local jurisdictions.

Contrary to what the bill advocates claim, there is no such thing as a "subminimum wage" for restaurant tipped employees. Maryland's minimum wage law allows employers to pay tipped employees a base wage of at least \$3.63 per hour. Employers are required by law to make up any deficiencies if a tipped employee does not earn enough in base wages plus tips to make at least the full minimum wage per hour for the



workweek (currently \$15/hour under Maryland minimum wage law). Tipped employees are among the highest earners in full-service restaurants, earning much more than minimum wage with tips included.

According to federal government employment data, the District of Columbia's (D.C.) full-service restaurant sector has lost about 2,000 (6%) jobs since D.C. began phasing out the tip credit in May of 2023 after voters approved a 2022 ballot initiative. And it is expected to get worse as the tip credit there will be fully phased out by 2027. To further assess the situation, a D.C. City Council committee recently heard six hours of testimony (on 1/15/25) from City servers and bartenders about the negative impacts of phasing out the tip credit. Since restaurants are so important to the tourism, the loss of restaurant workers will further erode the visitors experience and drive them to not return to Maryland for future vacations and trips. Restaurant workers are the front-line tourism industry ambassadors and are vital to Maryland's tourism economy.

Previous Maryland proposals to eliminate the tip credit statewide or locally in Baltimore City, Prince George's and Montgomery Counties have failed to pass because of strong opposition from tipped employees and restaurant operators. Continually we restaurant workers, the ones that these types of bills are supposed to help, speaking out against them as they know they will end up making less money. These proposals are being pushed by an out-of-state activist group as part of their nationwide agenda. The workers routinely ask these activist groups who invited them to speak for restaurant workers, because they do not want this bill to pass. Maryland elected officials should reject that group's efforts to pursue their agenda at the expense of local restaurants and tipped employees who support maintaining the tip credit.

For these reasons, we respectfully request an unfavorable report.

Respectfully submitted,
Matt Libber
Legislative Chair
Maryland Tourism Coalition