# **FAV HB1400 Del. Boafo.pdf**Uploaded by: Delegate Adrian Boafo Position: FAV

ADRIAN BOAFO
Legislative District 23
Prince George's County

Assistant Majority Leader

Economic Matters Committee



The Maryland House of Delegates 6 Bladen Street, Room 225 Annapolis, Maryland 21401 410-841-3047 · 301-858-3047 800-492-7122 Ext. 3047 Adrian.Boafo@house.state.md.us

### THE MARYLAND HOUSE OF DELEGATES Annapolis, Maryland 21401

Chairman C.T. Wilson Economic Matters Committee House Office Building, Room 230 Annapolis, Maryland 21401

Chairman Wilson, Vice-Chair Crosby, and Members of the Economic Matters Committee,

For tipped employees, Maryland's current minimum cash wage is \$3.63 per hour. Under the existing tip-credit system, employers are required to ensure that hospitality workers receive at least the standard minimum wage, either through their earned tips or by supplementing the difference. However, because wages depend heavily on fluctuating tip amounts, tipped workers often face unpredictable earnings, making it difficult to consistently afford essentials like housing, healthcare, and education.

HB 1400 eliminates the state income tax on tips, ensuring that gratuities received by hospitality workers are not subject to additional state taxation. Since tips are already taxed at the federal level, this change allows employees to retain more of their earnings, providing much-needed financial relief for workers who rely on gratuities as a major source of income.

To increase transparency in restaurant pricing practices, the bill establishes new regulations for service fees. Food service establishments that impose these fees will be required to disclose, in a clear and visible manner, whether the fees are distributed to employees or retained by the business. This prevents misleading practices and ensures that both employees and consumers have a clear understanding of how service charges are allocated.

To better align HB 1400 with the needs of Maryland's workforce and business community, several amendments have been proposed to refine its scope and strengthen worker protections.

- The tax exemption on tips now applies exclusively to food and beverage (F&B) workers, ensuring the benefit is directed at employees in industries where gratuities are a primary source of income.
- Employers with tipped F&B workers must publicly display educational materials outlining employee rights under Maryland labor laws. This guarantees that workers are informed about wage regulations and employer responsibilities.
- To promote safer and more inclusive workplaces, employers with tipped F&B workers must implement diversity and sexual harassment training every two years, aligning with similar legislation in Washington, D.C.
  - Compliance with these training requirements is reinforced by tying liquor license renewals to completion of the mandated training, ensuring accountability and prioritizing worker safety.

By voting favorably on HB 1400, the committee will take a meaningful step toward wage fairness, worker protections, and stronger labor standards in Maryland. I respectfully urge your support and a favorable report from the committee.

Thank you, Delegate Adrian Boafo

### **Testimony in support of HB1400 - No Tax on Tips Ac** Uploaded by: Richard KAP Kaplowitz

Position: FAV

HB1400\_RichardKaplowitz\_FAV 03/04/2025 Richard Keith Kaplowitz Frederick, MD 21703

#### TESTIMONY ON HB#/1400 - FAVORABLE

No Tax on Tips Act

FROM: Richard Keith Kaplowitz

My name is Richard K. Kaplowitz. I am a resident of District 3, Frederick County. I am submitting this testimony in support of HB#1400, No Tax on Tips Act

The Economic Policy Institute has identified the racist origins of tipping. *Tipping is a racist relic* and a modern tool of economic oppression in the South Rooted in Racism and Economic Exploitation <sup>1</sup> Understanding that origin is crucial in beginning the evaluation of this bill.

Across the country, tipped workers are more likely to be people of color, women, women of color, or single parents, and are disproportionately born outside of the United States. Tipped workers earn low wages, experience high rates of poverty, and are vulnerable to exploitation in the workplace—particularly in the form of wage theft and sexual harassment.

In most of the country, workers in restaurants, bars, nail salons, barber shops, and various other service jobs are paid differently than workers in virtually all other occupations. For these workers, a large portion (in many cases all) of their take-home pay comes from gratuity or "tips" provided directly from the customer. While employers of workers in nearly all other occupations must pay at least the minimum wage, federal and most states' laws establish a lower "subminimum wage" for tipped workers that effectively passes the responsibility for compensating these workers from their employers to their clientele.

This subminimum wage in the United States is a uniquely American institution that is rooted in the exploitation of formerly enslaved Black workers following emancipation. Tipping in the U.S. originated in the antebellum period...Following the Civil War and the abolition of slavery, formerly enslaved Black workers were often relegated to service jobs (e.g., food service workers and railroad porters). However, instead of paying Black workers any wage at all, employers suggested that guests offer Black workers a small tip for their services. Thus, the use of tipping to pay a worker's base wage, instead of as a bonus on top of employer-paid wages, became an increasingly common practice for service sector employment. In the early 20th century, these employers, who shared a common goal of keeping labor costs down and preventing worker organizing, formed the National Restaurant Association (NRA). Over the past century, the NRA has lobbied Congress to achieve these goals, first by excluding tipped occupations from minimum

<sup>&</sup>lt;sup>1</sup> https://www.epi.org/publication/rooted-racism-tipping/

#### HB1400 RichardKaplowitz FAV

wage protections entirely, and later by establishing permanent subminimum wages for tipped workers (One Fair Wage 2021).

The Maryland Restaurant Association maintains that, without the retention of a subminimum wage supplemented by the tip credit the employees will make less money and restaurants will be forced to raise prices or go out of business. My personal experience as a server tells me that these assertations are false and skewed to protect restaurants from paying a living wage to their staff.

Not every restaurant "cashes out" the tips earned at the end of a shift. Credit card tips may be collected and retained by the employer until their inclusion on a paycheck with taxes paid for them. Thus, the business can use your money the customer left for you for a period of time and you will not receive 100% of what that customer thought they were giving to you. Tips can vary based on date, time, your station (tables you are assigned to work), size of the party being served, problems in the kitchen taken out on you as the server, and especially how long a party occupies that table and the weather. I went in many times during snowstorms despite being told to stay off the roads and earned less than \$20 for 5 hours of work in tips. Yes, the employer must compensate me at the tip credit rate – but that could be two weeks later and the income to pay the bills I have tomorrow is missing. So, I get behind and pay late fees and never get ahead.

This bill establishes consumer protections related to the payment of wages and tips by food service and other facilities. It specifies the State minimum wage rate that will be applied. It will begin the phasing out of subminimum wages through prohibiting, beginning July 1, 2028, employers of tipped employees from including a tip credit amount as part of the employees' wages. It will protect tipped earnings from not being earned in full by the person being tipped by allowing a subtraction under the State income tax for certain qualified tips received by certain individuals. Finally, unlike the empty promises being made at the Federal level, this bill extends to Maryland employees the allowance for a person to receive a credit against the State income tax for certain amounts paid to an employee based on the payment of certain wages and tips.

I respectfully urge this committee to return a favorable report on HB#1400.

# **Testimony Saru - Maryland 2.1.24.pdf**Uploaded by: Saru Jayaraman Position: FAV



#### **TESTIMONY TO THE MARYLAND STATE LEGISLATURE**

In Support of SB 160, sponsored by Senator Ellis and Senator McCray

#### By Saru Jayaraman, President of One Fair Wage & Director of the University of California Berkeley Food Labor Research Center February 28, 2025

My name is Saru Jayaraman, and I am the President of One Fair Wage and the Director of the UC Berkeley Food Labor Research Center. On behalf of the 13.6 million restaurant workers nationwide and the 300,000 restaurant and service workers and over 2500 'high road' restaurant employers who are members of One Fair Wage, I thank you for allowing me to testify in support of SB 160, a bill for One Fair Wage in Maryland.

With the pandemic, the issue of the subminimum wage for tipped workers has changed dramatically in a historic way, with conditions for workers becoming unlivable. The restaurant industry, and the service economy in general, is undergoing massive upheaval, with hundreds of restaurants in Maryland, and thousands nationwide, raising their wages to at least \$15 an hour plus tips in order to recruit staff at a time when workers are indicating they are unwilling to work for anything less. Senate Bill 160 is essential not only because workers are in crisis, but also because independent restaurateurs agree that they will not be able to fully reopen without policy change to raise wages and end the subminimum wage for tipped workers.

Even prior to the pandemic, the subminimum wage was problematic, as a direct legacy of slavery that disproportionately impacts the lives of women and people of color. At Emancipation, the service industry, namely railroad, hotel and restaurant lobbies, sought to hire recently-freed Black people and not pay them anything, forcing them to live entirely on tips.<sup>1</sup>

This legacy continues today in 43 states, including Maryland, where tipped workers in the state can earn as little as \$3.63 an hour from their employers, and are required to make up the rest in tips, to get to the state minimum wage of \$15 per hour.<sup>2</sup>

<sup>&</sup>lt;sup>1</sup> Jayaraman, Saru, Forked: A New Standard for American Dining, (Oxford University Press, 2016).

<sup>&</sup>lt;sup>2</sup> U.S. Department of Labor. (September 2021). Minimum Wages for Tipped Employees. Wage and Hour Division. https://www.dol.gov/agencies/whd/state/minimum-wage/tipped.

Even as the minimum wage of Maryland increased to \$15 per hour last year, the tipped wage stayed frozen, thus increasing the gap between tipped and non tipped workers. In other words, the restaurant industry is getting away with paying 75 percent less in wage costs than every other industry.

In Maryland, there are 102,000 tipped workers who are 67 percent women and 32 percent people of color. Many marginalized communities are overrepresented in subminimum wage positions including immigrants and members of the LGBTQ community.<sup>34</sup> This majority-female workforce continues to suffer the highest rates of sexual harassment and economic instability of any industry as a result.<sup>5</sup> Ending this low-wage carve out positively impacts an overall restaurant industry of over 185,000 workers in Maryland.<sup>6</sup>

Prior to the pandemic, the restaurant industry was the largest and fastest growing industry in the country - all while being the largest employer of tipped workers, who earn some of the lowest wages in the country. Tipped workers, who are more than two thirds majority women who work in casual restaurants earning very little in tips, live in poverty and rely on public assistance at double the rate of the general workforce. Tipped workers have struggled with twice the poverty rate of other workers and the highest rates of sexual harassment of any industry because they must tolerate inappropriate customer behavior to feed their families in tips. 8

Women, in particular, faced the highest rates of sexual harassment when compared to all other industries. Women tipped workers experience even greater rates of sexual harassment than their non-tipped counterparts in the industry: over three quarters versus over half (76 percent vs. 52 percent). Over three quarters versus over half (76 percent vs. 52 percent).

https://onefairwage.site/wp-content/uploads/2022/10/OFW\_FactSheet NYS 2.pdf.

https://onefairwage.site/wp-content/uploads/2021/03/OFW TheTippingPoint 3-1.pdf.

<sup>&</sup>lt;sup>3</sup> OFW (June 2022) "No Pride In Subminimum Wages" https://onefairwage.site/wp-content/uploads/2022/06/OFW LGBTQ RestaurantWorkers.pdf.

<sup>&</sup>lt;sup>4</sup> OFW (January 2023) "New York Fact Sheet"

<sup>&</sup>lt;sup>5</sup> Allegretto, S. et al. (July 2014). Twenty-Three Years and Still Waiting for Change: Why It's Time to Give Tipped Workers the Regular Minimum Wage. Economic Policy Institute. <a href="https://www.epi.org/publication/waiting-for-change-tipped-minimum-wage/">https://www.epi.org/publication/waiting-for-change-tipped-minimum-wage/</a>.

<sup>&</sup>lt;sup>6</sup> OFW analysis of American Community Survey data, 2016- 2020 5-Year Sample. Steven Ruggles, Sarah Flood, Ronald Goeken, Megan Schouweiler and Matthew Sobek. IPUMS USA: Version 12.0 [dataset]. Minneapolis, <sup>7</sup>Allegretto, S. and Cooper, D. (2014) Twenty-Three Years and Still Waiting for Change: Why It's Time to Give Tipped Workers the Regular Minimum Wage. Economic Policy Institute. <a href="https://www.epi.org/publication/waiting-for-change-tipped-minimum-wage/">https://www.epi.org/publication/waiting-for-change-tipped-minimum-wage/</a>.

<sup>&</sup>lt;sup>8</sup> One Fair Wage. (March 2021). The Tipping Point: How the Subminimum Wage Keeps Income Low and Harassment High. https://onefairwage. site/wp-content/uploads/2021/03/OFW\_TheTippingPoint\_3-1.pdf.

<sup>&</sup>lt;sup>9</sup> Johnson, S.K. and Madera, J. M. (January 2018). Sexual Harassment Is Pervasive in the Restaurant Industry, Here's What Needs to Change. Harvard Business Review.

https://hbr.org/2018/01/sexual-harassment-is-pervasive-in-the-restaurant-industry-heres-what-needs-to-change.

<sup>&</sup>lt;sup>10</sup> One Fair Wage. (March 2021). The Tipping Point: How the Subminimum Wage Keeps Income Low and Harassment High. New York, NY: One Fair Wage.

Research has also shown that within the industry racial discrimination from employers and customers has yielded a wage gap between Black women and white men in 'front-of-house', tipped positions of \$6.19 per hour. This is a result of both occupational segregation and implicit bias in customer tipping. As long as these workers must rely on tips to feed their families, they are subject to the biases and harassment of customers. Allowing workers wages to be dependent on customers has led to a consistent wage gap between Black women and white male workers, for the same job. White servers and bartenders across all restaurant types make more in tips than most other racial groups, as per an Eater analysis of U.S. Census and Bureau of Labor Statistics data. 12

Unlike Maryland, seven states have always required a full minimum wage with tips on top - California, Oregon, Washington, Nevada, Minnesota, Montana and Alaska. These states have had the same or higher restaurant sales per capita, small business restaurant growth rates, restaurant industry job growth rates, and tipping averages as Maryland and the 43 states with a subminimum wage.

In fact, California has had a larger small business growth rate in the restaurant industry than Maryland. California has experienced a 11 percent increase in small business restaurants, compared to Maryland experiencing a growth rate of 6 percent since January 2020. Further, in California, a majority of restaurants are people of color-owned businesses (58 percent), compared to 54 percent of restaurants in Maryland.

Workers in these 7 states have also reported one half the rate of sexual harassment as the states that allow tipped workers to be paid a subminimum wage as little as \$2.13 an hour.<sup>17</sup>

#### <u>Impact of the Pandemic</u>

With the pandemic, the subminimum wage for tipped workers became unlivable: 6 million workers lost their jobs and % reported that they could not obtain unemployment insurance because they were told their wages were too low. Workers reported tips went down,

<sup>&</sup>lt;sup>11</sup> One Fair Wage. (September 2022). Intentional Inequality - Black Women's Equal Pay Day. https://onefairwage.site/intentional-inequality

<sup>12</sup> https://www.eater.com/a/case-against-tipping

<sup>&</sup>lt;sup>13</sup> ROC United. (2018). Better Wages, Better Tips: Restaurants Flourish with One Fair Wage. New York, NY: ROC United. https://chapters.rocunited.org/wp-content/uploads/2018/02/OneFairWage\_W.pdf.

<sup>&</sup>lt;sup>14</sup> ROC United. (2014). The Great Service Divide: Occupational Segregation & Inequality in the US Restaurant Industry.

https://chapters.rocunited.org/wp-content/uploads/2014/10/REPORT The-GreatService-Divide2.pdf.

<sup>&</sup>lt;sup>15</sup> Chetty, Friedman, Hendren, Stepner, and the OI Team. (2022). Opportunity Insights Economic Tracker. https://www.tracktherecovery.org/.

<sup>&</sup>lt;sup>16</sup> National Restaurant Association. (March 2022). Restaurant Owner Demographics Data Brief. <a href="https://restaurant.org/getmedia/ad96e3a8-4fb1-492d-a5ae-0b3dd53a61ef/nra-data-brief-restaurant-owner-demograph-">https://restaurant.org/getmedia/ad96e3a8-4fb1-492d-a5ae-0b3dd53a61ef/nra-data-brief-restaurant-owner-demograph-</a> ics-march-2022.pdf.
<sup>17</sup> Ibid.

harassment went up, and when they were asked to enforce COVID protocols on the same people from whom they had to get tips to survive, they left.<sup>18</sup>,<sup>19</sup>

During the pandemic, service and tipped workers across the country faced significantly higher rates of job losses and economic insecurity, with losses highly concentrated among women of color.<sup>20</sup> In May of 2020, our survey found that as many as 60 percent of service workers either did not qualify or were unsure if they qualified for unemployment insurance.<sup>21</sup> Many tipped workers returning to work in restaurants experienced sharp declines in tips, increased hostility in response to enforcing COVID-19 safety measures, and increased sexual harassment from customers. By December 2020, 41 percent of workers nationwide reported an increase in sexualized comments from customers.<sup>22</sup> Hundreds of women shared stories of male customers asking them to take their mask down so that they could know how much to tip them.<sup>23</sup>

#### **Workers Have Had Enough - Leaving the Industry**

These conditions and the persistence of a subminimum wage for tipped workers have led many tipped and service industry workers in general to leave the industry altogether<sup>24</sup>. Restaurants have had to face an unprecedented reckoning in the form of a massive staffing crisis. To date, the U.S. Bureau of Labor Statistics reports that over 1.2 million restaurant workers nationwide and nearly 100,000 restaurant workers in Maryland left their jobs by the end of 2022, representing an all time high since BLS began data collection in 2000.<sup>25,26</sup>

Our survey found that, even post-pandemic, over half (53 percent) of restaurant workers were considering leaving the industry and, unsurprisingly, over three-quarters (76 percent)

<sup>&</sup>lt;sup>18</sup> Allegretto, S. et al. (July 2014). Twenty-Three Years and Still Waiting for Change: Why It's Time to Give Tipped Workers the Regular Minimum Wage. Economic Policy Institute. https://www.epi.org/publication/waiting-for-change-tipped-minimum-wage/.

<sup>&</sup>lt;sup>19</sup> One Fair Wage. (March 2021). The Tipping Point: How the Subminimum Wage Keeps Income Low and Harassment High. https://onefairwage. site/wp-content/uploads/2021/03/OFW\_TheTippingPoint\_3-1.pdf.

<sup>&</sup>lt;sup>20</sup> Ewing-Nelson, C. (January 2021). All of the Jobs Lost in December Were Women's Jobs. National Women's Law Center. https://nwlc.org/wp-content/uploads/2021/01/December-Jobs-Day.pdf.

<sup>&</sup>lt;sup>21</sup> One Fair Wage. (May 2020). Locked Out By Low Wages: Service Workers' Challenges With Accessing Unemployment Insurance During COVID-19. New York, NY: One Fair Wage. https://onefairwage.site/wp-content/uploads/2020/11/OFW\_LockedOut\_UI\_COVID-19\_-FINALUPDATE.pdf.

<sup>&</sup>lt;sup>22</sup>One Fair Wage. (December 2020). Take off your mask so I know how much to tip you: Service Workers' Experience of Health & Harassment During COVID-19. New York, NY: One Fair Wage. https://onefairwage.site/wp-content/uploads/2020/12/OFW\_COVID\_WorkerExp\_MA\_4.pdf.

https://onefairwage.site/wp-content/uploads/2020/12/OFW\_COVID\_WorkerExp\_MA<sup>23</sup>lbid.

<sup>&</sup>lt;sup>24</sup> Selyukh, A. (July 20, 2021). Low Pay, No Benefits, Rude Customers: Restaurant Workers Quit At Record Rate. NPR.

https://www.npr.org/2021/07/20/1016081936/low-pay-no-benefits-rude-customers-restaurant-workers-quit-at-record-rate.

<sup>&</sup>lt;sup>25</sup>Cheng, M. (October 13, 2021). US restaurant workers are quitting in record numbers. Quartz. https://qz.com/2073439/us-restaurants-workers-are-quitting-their-jobs-in-record-numbers/.

<sup>&</sup>lt;sup>26</sup> U.S. Bureau of Labor Statistics and Federal Reserve Bank of St. Louis. (May, 2022). All Employees: Leisure and Hospitality: Food Services and Drinking Places in Massachusetts. <a href="https://fred.stlouisfed.org/series/SMU25000007072200001SA">https://fred.stlouisfed.org/series/SMU25000007072200001SA</a>.

reported their top reason for leaving was due to low wages and tips. This shift in power among tipped and service workers has spurred some restaurant owners and state governors to blame workers and prematurely cut unemployment benefits, which resulted in little to no effect on employment rates nor workers willingness to return to the industry for subminimum wages<sup>27</sup>,<sup>28</sup>.

In response to the massive staffing crisis, thousands of restaurants nationwide, and dozens in Maryland, have been raising wages in order to recruit enough staff to fully reopen.<sup>29</sup> Since September 2021, we have found more than 6,000 restaurants posting on Indeed.com that workers can earn far above the subminimum wage for tipped workers and the minimum wage at their establishments; many on that list have even clarified that they are offering workers a full minimum wage with tips on top - signaling a real shift in an industry in which everyone was paying the subminimum wage for tipped workers pre-pandemic.<sup>30</sup>

In Maryland, we have identified several dozen restaurants clearly offering at least the full minimum wage plus tips on top to servers, bartenders, and other front-of-house workers.<sup>31</sup>

Many of these restaurant owners have told us that they cannot do it alone; they need policy that will end the subminimum wage for tipped workers for two reasons: 1) to create a level playing field, in which all employers have to raise wages; and 2) they need policy that will signal to thousands of workers that there will be permanent policy change to raise wages that will make it worth returning to work in restaurants.

#### **National Momentum and Support to Pass One Fair Wage**

As a result of the massive upheaval in the restaurant industry, states across the country have been ending the subminimum wage for tipped workers and paying a full minimum wage with tips on top.<sup>32</sup>

With industry-wide wage increases, there is national momentum for change; in November 2022, 76 percent of Washington, DC voters voted to raise the wage for tipped workers from \$5.35 to the full minimum wage of \$16.10 per hour. In October 2023, Chicago City Council

<sup>&</sup>lt;sup>27</sup> Chaney-Cambon, S. and Dougherty, D. (September 2021). States That Cut Unemployment Benefits Saw Limited Impact on Job Growth. Wall Street Journal.

https://www.wsj.com/articles/states-that-cut-unemployment-benefits-saw-limited-impact-on-job-growth-11630488601.

<sup>&</sup>lt;sup>28</sup> One Fair Wage. (July 2021). The Impact (or Lack Thereof) of Ending Unemployment Insurance on Restaurant Workers' Willingness to Work for Subminimum Wages, New York, NY: One Fair Wage. https://onefairwage.site/wp-content/uploads/2021/07/OFW HelpWanted.pdf.

<sup>&</sup>lt;sup>29</sup> Black, J. (September 2021). How To Make an Unloved Job More Attractive? Restaurants Ticker With Wages. New York Times. https://www.nytimes.com/2021/09/20/dining/restaurant-wages.html.

<sup>&</sup>lt;sup>30</sup> One Fair Wage. (September 2021). Raising Wages to Reopen: Restaurants Nationwide Raising Wages to Save Their Businesses After COVID-19. New York, NY: One Fair Wage. https://onefairwage.site/wp-content/uploads/2021/09/OFW\_RasingWagesToReopen\_3.pdf.

<sup>&</sup>lt;sup>31</sup> OFW Employer Database

<sup>32</sup> NBC News. Jan 2024. At least five states are considering requiring full minimum wages for tip earners this year. https://www.nbcnews.com/business/economy/tipped-workers-minimum-wage-rcna132172

voted to end the subminimum wage for tipped workers altogether, with a vote of 36-10.33 One Fair Wage legislation is now moving in 13 states nationwide - 9 states via legislation, including CT and NY, and 4 states where One Fair Wage will be on the ballot in November, including MI, OH, AZ, and MA<sup>34</sup>. It's a historic moment: for the first time since Emancipation that millions of workers are rejecting the subminimum wage for tipped workers, and employers must pay One Fair Wage in order to survive.

<sup>&</sup>lt;sup>33</sup> Chicago Eater, September 2023. https://chicago.eater.com/2023/9/19/23881229/chicago-tipped-minimum-wage-ordinance-one-fair-wage-victory-restau rant-association-saru-javaraman

<sup>&</sup>lt;sup>34</sup> NBC News. Jan 2024. At least five states are considering requiring full minimum wages for tip earners this year. https://www.nbcnews.com/business/economy/tipped-workers-minimum-wage-rcna132172



With Maryland's subminimum wage for tipped workers at \$3.63 per hour, Maryland restaurants will face an even greater staffing crisis than they have already faced if Maryland does not follow this national trend to end the subminimum wage for tipped workers.

President Biden has been a champion of raising the minimum wage to \$15 an hour and ending the subminimum wage for tipped workers, including this policy in his federal Raise the Wage Act that was part of his initial \$1.9 trillion COVID-19 relief package<sup>35</sup>. In 2021, while addressing restaurant owners concerns regarding the labor shortage, President Biden

<sup>&</sup>lt;sup>35</sup> Jacobson, L.(January 2021). What's in Joe Biden's \$1.9 trillion American Rescue Plan?. PolitiFact.https://www.politifact.com/article/2021/jan/15/whats-joe-bidens-19-trillion-american-rescue-plan/.

urged employers to pay higher wages to workers, and specifically called out the need to pay tipped workers a \$15 minimum wage plus tips.<sup>36</sup>

Now with the critical 2024 elections, the issue has become even more critical: the cost of living is at the top of every poll, especially polls of the most disinterested voters.

Recent polls of voters of color and youth have shown that cost of living is the top issue on voters' minds. The poll conducted for UnidosUS and Mi Familia Vota asked 3,037 Latinos to pick the most important issues for Congress to address. Inflation and the rising cost of living were named by 54% of Latinos, and jobs and the economy came in second (44%).<sup>37</sup> As per CIRCLE's early poll of youth (ages 18-34) ahead of the 2024 presidential election, young people are sending a clear message that their primary concern is the economy. 53% chose the cost of living/inflation among their three top issues, followed by jobs that pay a living wage (28%).<sup>38</sup>

This means that there is a Raise the Wage Voter Bloc - voters who will turn out to vote if wage increases are on the ballot and who will vote for candidates who support wage increases, and not for those who don't. There is only one policy solution to the rising cost of living: putting more money in people's pockets, such as through SB 160.

As per MIT's Living Wage calculator, the living wage for a family of two working adults with two children in Maryland is \$31.15 per hour, well above the current minimum wage<sup>39</sup>.

By passing One Fair Wage, Maryland legislators can end a legacy of slavery, diminish racial inequity and sexual harassment in the restaurant industry, align with President Biden's agenda, engage unlikely voters, and allow independent restaurant owners across the states to fully reopen, and their workforce to fully recover.

<sup>&</sup>lt;sup>36</sup>Brest, M. (July 2021). Biden tells restaurateurs to pay workers more amid labor shortage. Washington Examiner. https://www.washingtonexaminer.com/news/biden-restaurant-increase-wages-labor.

<sup>&</sup>lt;sup>37</sup> NBC News. Suzanne Gamboa. Large Latino poll finds cost of living and economy top voters' concerns <a href="https://www.msn.com/en-us/news/politics/large-latino-poll-finds-cost-of-living-and-economy-top-voters-concerns/ar-AA1kJc9x">https://www.msn.com/en-us/news/politics/large-latino-poll-finds-cost-of-living-and-economy-top-voters-concerns/ar-AA1kJc9x</a>

<sup>&</sup>lt;sup>38</sup> Peter de Guzman, Alberto Medina (November 2023). Youth and the 2024 Election: Likely to Vote and Ready to Drive Action on Key Political Issues.

https://circle.tufts.edu/2024-election-youth-poll#diverse-issue-priorities,-like-climate,-shape-youth-votes-and-action <sup>39</sup> MIT Living Wage Calculator Maryland <a href="https://livingwage.mit.edu/states/24">https://livingwage.mit.edu/states/24</a>

### WDC 2025 Testimony\_HB1400 No Tax on Tips\_3.4.25.pd Uploaded by: Virginia Macomber

Position: FAV

P.O. Box 34047, Bethesda, MD 20827

www.womensdemocraticclub.org

### House Bill 1400 – No Tax on Tips Bill Economic Matters Committee/Ways and Means – March 4, 2025 SUPPORT

Thank you for this opportunity to submit written testimony concerning an important priority of the **Montgomery County Women's Democratic Club** (WDC) for the 2025 legislative session. WDC is one of Maryland's largest and most active Democratic clubs with hundreds of politically active members, including many elected officials.

WDC urges the passage of <u>HB1400</u> – No Tax on Tips Bill. This bill will incrementally increase the State minimum wage from the current \$15/hour to \$20/hour by July 1, 2028, and end Maryland's two-tier wage system for tipped workers by incrementally increasing the current \$3.63 sub-minimum wage for tipped workers to \$20/hour by July 1, 2028. Beginning July 1, 2028, an employer may not include an earned tip credit as part of a covered employee's wage and shall pay the employee at least the State minimum wage of \$20/hour. Before January 1, 2029, (when the two-tiered wage system ends), a tipped worker may claim a State income tax credit of 50 percent of the difference between the minimum wage paid and the tip credit. This bill also prohibits a food service facility from charging a service fee unless such fee is prominently disclosed and must state whether the service fee is paid directly to the employees.

Although the State raised the minimum wage to \$15/hour on January 1, 2024, there was no provision made to adjust the minimum wage over time to reflect changes in the CPI (Consumer Price Index). The tipped sub-minimum wage reached \$3.63/hour in 2009 and has not increased since then. Over time, the gap between the sub-minimum wage and the prevailing minimum wage has grown – requiring an increasing amount of tips to make up the difference. This system results in significant inequities, including different pay rates for tipped "front-of the house" employees (waiters, bartenders) and salaried "back of the house" employees (cooks, bussers, dishwashers). Many restaurant patrons are unaware that their tips subsidize those restaurant owners who pay the sub-minimum tipped wage. Employees of high-end fine dining restaurants may earn significantly more than the State minimum wage, while most tipped workers do not – and because of a high rate of wage-theft, they may not even earn the State minimum wage for fear of reporting their employers and losing their jobs. Forty two percent of tipped workers have a family income less than double the federal poverty line. Nationally, tipped workers are 70 percent women, and 43 percent people of color. 30 percent are parents. Also, tipped workers have the highest rate of sexual harassment of any industry because they must tolerate inappropriate customer behavior to ensure a good tip.

We ask for your support for HB1400 and strongly urge a favorable Committee report. This bill will end Maryland's inequitable sub-minimum wage for tipped workers. Although it does not add a provision to adjust the minimum wage for inflation, it does provide for incremental increases in the minimum wage to \$20/hour by July 1, 2028 – closer to the Maryland 2024 living wage for a single adult of \$26.17/hour.

Tazeen Ahmad WDC President

Ginger Macomber WDC Working Families Subcommittee JoAnne Koravos WDC Advocacy Co-Chair

## HB1400\_NWLC\_FWA (3.4.25).pdf Uploaded by: Diana Ramirez

Position: FWA



 1350 I STREET NW SUITE 700 WASHINGTON, DC 20005

202-588-5180

NWLC.ORG

#### 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.<sup>7</sup>

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 bills<sup>8</sup>—and many who have already left question whether they should return.<sup>9</sup> 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.<sup>10</sup> 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.<sup>11</sup> 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. 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. <sup>13</sup>

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." 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. 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. In 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. In And higher wages can further benefit employers by reducing turnover and increasing productivity.

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. 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.<sup>20</sup> 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.

\* \* \*

Please do not hesitate to contact Diana Ramirez at <a href="mailto:dramirez@nwlc.org">dramirez@nwlc.org</a> if you have questions or require additional information. Thank you for your consideration.

https://static1.squarespace.com/static/63/4f6bf33b7675afa750d48/t/648c5fd66574923f49fa14d6/1686921174546/OFW EndingLegacySlavery MD-1.pdf.

<sup>&</sup>lt;sup>1</sup> The Wage Gap by State for Women Overall, NWLC (Sept. 2024), <a href="https://nwlc.org/wp-content/uploads/2024/09/Wage-Gap-State-by-State-Women-Overall-9.20.24v2.pdf">https://nwlc.org/wp-content/uploads/2024/09/Wage-Gap-State-by-State-Women-Overall-9.20.24v2.pdf</a>.

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

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

<sup>&</sup>lt;sup>4</sup> See id.

<sup>&</sup>lt;sup>5</sup> 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), <a href="https://www.epi.org/publication/minimum-wage-simulation-model-technical-methodology/">https://www.epi.org/publication/minimum-wage-simulation-model-technical-methodology/</a>.

<sup>&</sup>lt;sup>6</sup> 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/.

<sup>&</sup>lt;sup>7</sup> 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), <a href="https://onefairwage.squarespace.com/publications/unlivable">https://onefairwage.squarespace.com/publications/unlivable</a>; Catrin Einhorn & Rachel Abrams, The Tipping Equation, N.Y. TIMES (March 12, 2018), <a href="https://www.nytimes.com/interactive/2018/03/11/business/tippingsexual-harassment.html">https://www.nytimes.com/interactive/2018/03/11/business/tippingsexual-harassment.html</a>; 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), <a href="https://https://https://www.nytimes.com/interactive/2018/03/11/business/tippingsexual-harassment.html">https://www.nytimes.com/interactive/2018/03/11/business/tippingsexual-harassment.html</a>; 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), <a href="https://https://https://https://html.ntml">https://http

<sup>&</sup>lt;sup>8</sup> See One Fair Wage: Ending a Legacy of Slavery and Addressing Maryland's Restaurant Staffing Crisis, ONE FAIR WAGE (Jan. 2023), <a href="https://static1.squarespace.com/static/6374f6bf33b7675afa750d48/t/648c5fd66574923f49fa14d6/1686921174546/OF">https://static1.squarespace.com/static/6374f6bf33b7675afa750d48/t/648c5fd66574923f49fa14d6/1686921174546/OF</a>

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

<sup>&</sup>lt;sup>10</sup> See Washington, D.C., Initiative 82, Increase Minimum Wage for Tipped Employees Measure (2022), BALLOTPEDIA, <a href="https://ballotpedia.org/Washington">https://ballotpedia.org/Washington</a>, D.C., Initiative 82, Increase Minimum Wage for Tipped Employees Measure (2022).

<sup>&</sup>lt;sup>11</sup> See One Fair Wage: Ending a Legacy of Slavery and Addressing Maryland's Restaurant Staffing Crisis, supra note 8.

- 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).
- <sup>14</sup> 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..
- <sup>15</sup> Ben Zipperer, *The Impact of the Raise the Wage Act of 2023*, ECON. POLICY INST. (July 2023), https://files.epi.org/uploads/270622.pdf.
- Jessica Vela, Higher State-Level Minimum Wages Aid in Faster Jobs Recovery, CTR. FOR AM. PROGRESS (July 2023), <a href="https://www.americanprogress.org/article/higher-state-level-minimum-wages-aid-in-faster-jobs-recovery/">https://www.americanprogress.org/article/higher-state-level-minimum-wages-aid-in-faster-jobs-recovery/</a>.
   See, e.g., Zoe Willingham, Small Businesses Get a Boost from a \$15 Minimum Wage, CTR. FOR AM. PROGRESS (Feb. 25, 2021), <a href="https://www.americanprogress.org/issues/economy/reports/2021/02/25/496355/small-businesses-get-boost-15-minimum-wage/">https://www.americanprogress.org/issues/economy/reports/2021/02/25/496355/small-businesses-get-boost-15-minimum-wage/</a>; William M. Rodgers III & Amanda Novello, Making the Economic Case for a \$15 Minimum Wage, CENT. FOUND. (Jan. 2019), <a href="https://tcf.org/content/commentary/making-economic-case-15-minimum-wage/">https://tcf.org/content/commentary/making-economic-case-15-minimum-wage/</a>.
- <sup>18</sup> See, e.g., Holly Sklar, *Business and Minimum Wage Research Summary*, Bus. For a Fair Min. Wage (April 2023), <a href="https://www.businessforafairminimumwage.org/sites/default/files/BFMW%20Business%20and%20Minimum%20Wage%20Research%20Summary%20April%202023.pdf">https://www.businessforafairminimumwage.org/sites/default/files/BFMW%20Business%20and%20Minimum%20Wage%20Research%20Summary%20April%202023.pdf</a>; 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), <a href="https://equitablegrowth.org/improving-u-s-labor-standards-and-the-quality-of-jobs-to-reduce-the-costs-of-employee-turnover-to-u-s-companies/">https://equitablegrowth.org/improving-u-s-labor-standards-and-the-quality-of-jobs-to-reduce-the-costs-of-employee-turnover-to-u-s-companies/</a>.
- <sup>19</sup> See Tucker & Vogtman, Hard Work Is Not Enough, supra note 3.
- <sup>20</sup> 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), <a href="https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.11.2.75">https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.11.2.75</a>; 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), <a href="https://www.jstor.org/stable/2535313?seq=1#page-scan-tab-contents">https://www.jstor.org/stable/2535313?seq=1#page-scan-tab-contents</a>; *Minimum Wages, Ch. 7.3: Effects on Gender Pay-Gaps*, <a href="https://www.ilo.org/global/%20topics/wages/minimum">https://www.ilo.org/global/%20topics/wages/minimum</a>
- 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), <a href="http://irle.berkeley.edu/files/2021/02/Racial-Inequality-and-Minimum-Wages">http://irle.berkeley.edu/files/2021/02/Racial-Inequality-and-Minimum-Wages</a> (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).

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

## HB1400\_UNF\_MHLA.pdf Uploaded by: Amy Rohrer Position: UNF



#### **Testimony in Opposition to HB 1400**

No Tax on Tips Act

Economic Matters & Ways and Means Committees – March 4, 2025

The Maryland Hotel Lodging Association is in strong opposition to <u>HB 1400</u> due to the crippling nature it would have on our hotel members' ability to efficiently operate.

<u>HB 1400</u> goes far beyond eliminating the tax on tips, as it would incrementally increase the minimum wage to \$20 an hour while also phasing out the tip credit by July 1, 2028. It would also require specific disclosures related to service fees charged by a food service facility. **MHLA** is opposed to all aspects of this bill except the proposed elimination of the "tax on tips".

In recent years the legislature, as well as various local municipalities, have passed increases to minimum wage. This has resulted in an exponential increase in both labor and related payroll expenses. Since 2018, Maryland's minimum wage has increased a staggering 49%, with a \$15.00 minimum wage taking effect January 1, 2024.

In the hotel business, positions that "start" at minimum wage are often those positions that are entry level or require little to no experience or existing skill sets at the time of employment. As minimum wage has increased, so have the wages for associates with more experience, seniority and training due to wage compression in the workforce. Therefore, as minimum wage has exponentially increased so have all the other wages upstream. This factor alone has contributed to an explosion in labor and payroll expenses, which is our industry's largest expense.

Although top-line revenue at hotels has increased over the last few years, it has not matched the level of inflation related to all the other various expenses that our members have had to absorb. In addition to the increases in labor and payroll expenses, hotels are challenged with increases in energy costs, coming into compliance with BEPS, insurance and professional expenses (cable service, trash service, pest control, landscaping, etc.) and inflationary costs due to market and supply chain factors for guest and operating supplies as well as all aspects of food and beverage supply and delivery.

The AHLA 2025 State of the Industry Report shows that hotel growth is flattening, which is alarming as property level costs continue to rise faster than revenues, making it challenging for small business hotel owners to stay open and serve guests. While we <u>urge an unfavorable report on HB 1400</u>, we welcome opportunities to partner with the Maryland General Assembly on policies to help our members overcome these challenges so they can create pathways for their employees to find lasting careers and serve their guests.

Respectfully submitted,

Amy Rohrer, President & CEO

### **HB1400 - No Tax on Tips Act - Oppose.pdf** Uploaded by: Danna Blum

Position: UNF



Date: February 10, 2025

Economic Matters Committee Delegate C. T. Wilson Room 231 House Office Building Annapolis, Maryland 21401

Re: HB 1400 – No Tax on Tips Act - Oppose

#### Dear Delegate Wilson:

HB1400 will prohibit service fees being imposed by food service businesses unless the fee is prominently posted; explains what it is, what it is for, and whether it will be added to employees' wages. This notice must be seen before a customer places an order.

This appears to be an attempt to prevent food service establishments from charging a service fee to make up for the additional wages they must pay as the tip credit disappears, as this bill requires.

In the end, the food service business will be faced with increased costs and still have to report and distribute tips if received, despite any policy to the contrary.

Restaurants already operate on a very slim profit margin – often less than 5%. Additional financial burdens may well result in more business closures in Maryland. The news contains frequent stories of restaurants – both chain and private – closing. A bill such as this will only add to that number.

The Carroll County Chamber has already pointed out the serious flaws in removing tip-credits. Details can be found at The Employment Policies Institute.

The Carroll County Chamber of Commerce, a business advocacy organization of nearly 700 members, opposes this bill. We therefore request that you give this bill an unfavorable report.

Sincerely,

Mike McMullin President

Carroll County Chamber of Commerce

CC: Delegate Chris Tomlinson Senator Justin Ready

mike McMallin

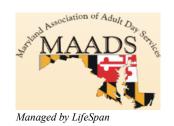
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Carroll County Chamber of Commerce ● 9 East Main Street ● Westminster, MD 21157 Phone: 410-848-9050 ● Fax: 410-876-1023 ● www.carrollcountychamber.org

## HB1400\_UNF\_LifeSpan, MAADS, MNCHA\_No Tax on Tips A Uploaded by: Danna Kauffman

Position: UNF







House Economic Matters Committee March 4, 2025 House Bill 1400 – No Tax on Tips Act POSITION: OPPOSE

On behalf of the LifeSpan Network, the Maryland Association of Adult Day Services, and the Maryland-National Capital Homecare Association, we oppose the provision contained in House Bill 1400 that increases the State's minimum wage to \$20/hour. Our collective organizations care for the State's most vulnerable elderly and disabled residents within a system that has historically been underfunded and does not adequately reimburse providers for the cost to provide care.

Unlike the previous initiative to increase the minimum wage to \$15/hour, this bill fails to provide an increase in Medicaid rates to offset the additional cost to providers. While we understand the intent of the bill, we are gravely concerned that this provision will put many senior care facilities out of business, especially home- and community-based services, which allow residents the opportunity to age at home or within their communities. Providers simply cannot incur this type of fiscal operating increase at a time when other cost items, such as electricity, insurance, and food, are increasing exponentially. Therefore, we urge an unfavorable vote on House Bill 1400 as it relates to the increase in minimum wage.

#### For more information:

Danna L. Kauffman Andrew G. Vetter Christine K. Krone (410) 244-7000

### **HB1400\_OCChamber\_Thompson\_UNF.pdf**Uploaded by: DENNIS RASMUSSEN

Position: UNF



### TESTIMONY OFFERED ON BEHALF OF THE GREATER OCEAN CITY MARYLAND CHAMBER OF COMMERCE

#### IN OPPOSITION TO: HB1400 - No Tax on Tips Act

Before: Economic Matters Committee Hearing: 3/4/25 at 1:00 PM

The Greater Ocean City Chamber of Commerce, representing more than 700 regional businesses and job creators, respectfully **OPPOSES House Bill HB1400** – **No Tax on Tips Act.** This legislation would prohibit, beginning July 1, 2028, employers of tipped employees from including a tip credit amount as part of the employees' wages. This bill ties this to an increase to minimum wage to \$20 per hour by July 1, 2028, as well.

This legislation would hurt the tipped worker more than anyone. Consumer behavior would shift, and these employees who rely on tips to earn significantly more than minimum wage would be earning a much lower amount. Employers, who would be saddled with paying more per employee per hour, would cut back hours for staff and shift to technology solutions to provide customer service where possible, ultimately hurting the tipped wage earner yet again.

The Greater Ocean City Chamber respectfully requests an **UNFAVORABLE REPORT for HB1400**. Please feel free to contact the Chamber directly on 410-213-0144 should you have any questions.

Respectfully submitted,

Amy Thompson
Executive Director
amy@oceancity.org

**Bob Thompson**Legislative Committee Chair
bob@t1built.com

### HB 1400\_No Tax on Tips Act\_UNFAV.pdf Uploaded by: Grason Wiggins

Position: UNF



#### House Bill 1400

Position: Unfavorable

Committee: Economic Matters

Date: March 4, 2025

Founded in 1968, the Maryland Chamber of Commerce is the leading voice for business in Maryland. We are a statewide coalition of more than 7,000 members and federated partners working to develop and promote strong public policy that ensures sustained economic health and growth for Maryland businesses, employees, and families.

House Bill 1400 (HB 1400) would increase the minimum wage from \$15 to \$20 per hour by July 1, 2028, eliminates the state's tip credit, impose new disclosure requirements for service fees at food service establishments, and create a state income tax exemption for certain tipped wages while offering a limited employer tax credit. While HB 1400 purports to provide tax relief to tipped employees, it introduced significant burdens on Maryland's businesses, particularly in the hospitality and service industries, by increasing the minimum wage, phasing out the tip credit, and imposing additional labor costs.

#### Minimum Wage Increase

Maryland's businesses continue to grapple with inflationary pressures and the financial strain of the minimum wage increase that took effect only 13 months ago. HB 1400 proposes additional wage hikes, reaching \$20 per hour by 2028, which will disproportionately impact small businesses and industries with high labor costs. Businesses across the state, especially the hospitality and restaurant sectors, which rely on a delicate balance of operational costs and consumer demand, would struggle to absorb these cost increases without passing them on to consumers through higher prices, service charges, or workforce reductions.

#### **Elimination of the Tip Credit**

HB 1400 proposes eliminating the tip credit, requiring restaurants to pay tipped employees the full state minimum wage regardless of their actual earnings. This drastic change would upend a compensation model that has successfully allowed tipped employees to earn well above the minimum wage. Maryland's current law ensures that tipped workers always receive at least the state minimum wage through a combination of base wages and tips. Removing the tip credit would quadruple labor costs for full-service restaurants, forcing many establishments to adopt service charges in place of traditional tipping, ultimately reducing take-home pay for employees and diminishing the incentive for exceptional customer service. Lastly, while the bill proposes a tax exemption for tips, its effectiveness would be undercut by the elimination of the tip credit, as much more of a server's earnings would come from regular wages rather than tips, making them fully taxable under Maryland law.

#### **Impact on Business Climate**

Maryland's business community is committed to fair wages and economic opportunity. However, HB 1400 threatens the state's competitiveness by adding unstable labor costs that could drive businesses to neighboring states with more stable wage policies. Additionally, the potential unintended consequences of replacing tipping with service charges could lead to lower employee earnings and reduced job opportunities, as has been observed in other jurisdictions that have attempted this, like D.C.

For these reasons, the Maryland Chamber of Commerce respectfully requests an <u>unfavorable</u> <u>report</u> on HB 1400.

### HB1400-ECM\_MACo\_OPP.pdf Uploaded by: Kevin Kinnally

Position: UNF



#### House Bill 1400

No Tax on Tips Act

MACo Position: **OPPOSE**To: Economic Matters and

Ways and Means Committees

Date: March 4, 2025 From: Kevin Kinnally

#### Tax Incentives and Local Government Autonomy

Counties are eager and committed partners in promoting economic growth and creating opportunity – and prefer local autonomy in determining the best way locally. The Maryland Association of Counties (MACo) opposes state-mandated reductions in local revenue sources, but county governments welcome flexible and optional tools to serve and react to local needs and community priorities.

The General Assembly routinely considers broad or targeted tax incentives to stimulate economic growth, encourage beneficial activities, or attract and retain residents. These proposals sometimes focus exclusively on the State's tax structure, but often extend to local revenues as well.

In general, MACo stands for local self-determination. Counties, led by locally elected leaders directly accountable within the communities they serve, are best positioned to govern local affairs – ranging from land use to fiscal matters. MACo steadfastly guards this local autonomy and consistently advocates against one-size-fits-all policies that override local decision-making.

State tax incentives should be enacted as "local option" offerings to allow counties maximum flexibility in tailoring local policies to meet local needs and priorities. The State and its local governments already work together here – where the State routinely grants a state-level property tax credit, enabling county governments to enact their own as a local option.

MACo urges the Committee to primarily consider state income tax credits as the best means to incorporate local tax relief as part of a broader policy. MACo and county governments stand ready to work with state policymakers to craft flexible and optional tools to deliver broad or targeted tax incentives but resist state-mandated changes that preclude local input.

# MBIA Letter of Opposition HB 1400.pdf Uploaded by: Lori Graf Position: UNF



March 4, 2025

The Honorable CT Wilson Chair, Economic Matters Committee House Office Building, Room 251, Annapolis, MD, 21401

RE: MBIA Letter of Support HB1400 - No Tax on Tips Act

Dear Chairman Korman,

The Maryland Building Industry Association, representing 100,000 employees statewide, appreciates the opportunity to participate in the discussion **HB 1400 - No Tax on Tips Act**. MBIA **opposes** the Act in its current version.

HB1400 introduces several new provisions related to wages, tips, and consumer protections for food service workers in Maryland. First, it establishes new transparency requirements for food service facilities regarding service fees, mandating that businesses must prominently disclose the amount, purpose, and whether the fee is paid directly to employees before customers place an order. The bill also progressively increases the state minimum wage, raising it to \$15 per hour starting January 1, 2024, then to \$17 per hour in 2027, \$18.50 per hour in 2028, and finally \$20 per hour beginning July 1, 2028.

The concern of the industry is the increase to the minimum wage standard, the minimum wage currently in Maryland is that passed in 2019 and took effect January 1st of this year. While we understand the cost of goods and services continue to rise, this will cause distress for small businesses and will increase the potential of raising prices, thus fueling inflation. This would then increase the prices of products and services to cover their increased labor costs.

For these reasons, MBIA respectfully urges the Committee to give this measure a un favorable report. Thank you for your consideration.

For more information about this position, please contact Lori Graf at 410-800-7327 or lgraf@marylandbuilders.org.

cc: Members of the House Economic Matters Committee

## **HB1400 - MTC Testimony.pdf**Uploaded by: Matt Libber Position: UNF



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

### **HB1400\_RestaurantAssoc\_Thompson\_UNF.pdf**Uploaded by: Melvin Thompson

Position: UNF



#### House Bill 1400

No Tax on Tips Act

March 4, 2025

Position: **OPPOSE** 

Mr. Chairman and Members of the Economic Committee:

The Restaurant Association of Maryland strongly opposes House Bill 1400.

As introduced, this legislation would significantly reduce the earnings of tipped employees and drastically increase labor costs for employers. And 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 <u>IRS rules</u>, 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.

With respect to the proposed increase to Maryland's minimum wage, mandates that increase the cost of labor affect the restaurant industry disproportionately. Our industry is extremely labor-intensive and requires significantly more labor per \$1 million in sales than most other industries. Maryland's \$15 minimum wage took effect in January 2024, and many of our businesses are still struggling to absorb this increase, in addition to inflation and soaring food costs. Restaurant industry labor costs have increased 31% since 2019. The minimum wage hike proposed by this legislation would exacerbate the operational challenges for our industry.

Eliminating the tip credit, as also proposed by this legislation, would quadruple labor costs for full-service restaurants. Tipped employee earnings would significantly decrease if the tip credit was eliminated because most restaurants would be forced to impose service charges on customer checks to cover the higher labor costs. Customers are unlikely to tip on top of service charges. And there would be no incentive for servers to provide the best possible customer service if they were no longer rewarded with tips. Restaurant operators may also be forced to raise menu prices and eliminate jobs.

(more)

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.

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.

These proposals are being pushed by an out-of-state activist group as part of their nationwide agenda. 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.

The so-called "No Tax on Tips" provision of this legislation is a misnomer because the proposed elimination of the tip credit would effectively replace tipping with service charges to cover the higher base wages for tipped employees. And as previously mentioned, most customers will not tip on top of service charges. Therefore, there would be few, if any, tips that would have otherwise been subject to State income tax. We supported legislation that focuses solely on excluding tips from State income tax. However, we do not support this legislation.

And finally, the proposed \$10,000 tax credit for employers who opt to pay full minimum wage to tipped employees (before the tip credit is fully phased out) is insignificant compared to the labor cost difference.

For these reasons, we respectfully request an unfavorable report.

Sincerely,

Melvin R. Thompson Senior Vice President

Mahie R. home

Government Affairs and Public Policy

### HB1400\_UNF\_MSLBA\_No Tax on Tips Act.pdf Uploaded by: Steve Wise

Position: UNF



150 E Main Street, Suite 104, Westminster, MD 21157

House Economic Matters Committee March 4, 2025 House Bill 1400 – No Tax on Tips Act

**POSITION: OPPOSE** 

The Maryland State Licensed Beverage Association (MSLBA), which consists of approximately 850 Maryland businesses holding alcoholic beverage licenses (restaurants, bars, taverns, and package stores), opposes House Bill 1400.

This legislation would make three changes to existing law: 1) It would require that if a food service facility charges a "service fee", that it must disclose the amount and purpose of the fee; 2) It would raise the minimum wage to \$17.00 per hour effective January 1, 2027, \$18.50 effective January 1, 2028, and \$20.00 per hour effective July 1, 2028, and 3) eliminate the tip credit.

Regarding the service fee, the cost of goods, labor, electricity and other critical aspects of the food and beverage industry have increased significantly. Some businesses have chosen to impose service fees to help offset those costs. Any such fees are disclosed on the check received by the customer. These fees may in part go to employees and may in part be retained by the business to offset these higher costs. The required disclosure does not anticipate that these purposes may vary from time to time and puts the business in the position of being heavily fined under the Consumer Protection Act for violations.

The minimum wage increase imposed under House Bill 1400 would place an even heavier financial burden upon the food and beverage industry than already exists. This industry is labor intensive and thus labor costs are greater than in other industries to raise the same amount of revenue. This will cause employers to not hire as many people and these higher labor costs will ultimately be passed on to the consumer, who in turn may dine out less and thus reduce the amount of taxes paid to the State.

Finally, eliminating the tip credit would only further increase labor costs for businesses. Taking away tipped income in favor of an hourly wage would lower the wages of many tipped employees and erode their incentive to provide the best possible service to each patron.

For these reasons, MSLBA strongly opposes House Bill 1400.

#### For more information call:

J. Steven Wise Danna L. Kauffman Andrew G. Vetter 410-244-7000

## **HB1400 Oppose OCHMRA Testimony.pdf** Uploaded by: Susan Jones

Position: UNF



HOTEL + MOTEL + RESTAURANT + ASSOCIATION + INC.

March 4, 2025

### House Bill 1400 No Tax on Tips Act Position: OPPOSE

Mr. Chairman and Members of the Economic Committee:

On behalf of the 450 Ocean City Hotel-Motel-Restaurant Association Members, I am writing to strongly oppose House Bill 1400. This legislation would significantly reduce the earnings of tipped employees while sharply raising labor costs for employers. Any potential benefit of exempting tips from taxation would not be realized, as 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.

When it comes to the disclosure of service fees (or service charges), it's important to differentiate between service charges and tips. According to federal law and IRS guidelines, service charges added to customer checks are considered part of a business's gross receipts and are not categorized as tips. Restaurants may choose to distribute all or part of these service charges to employees as regular wages, not tips. The disclosure requirement in this bill appears to acknowledge that many restaurants will likely be forced to introduce service charges to help offset the increased labor costs resulting from the phase-out of the tip credit.

Regarding the proposed increase to Maryland's minimum wage, mandates that raise labor costs have a disproportionate impact on the restaurant industry. Our sector is highly labor-intensive and requires more labor per \$1 million in sales than most other industries. Maryland's \$15 minimum wage, which took effect in January 2024, is still a challenge for many businesses to absorb, especially with inflation and rising food costs. Since 2019, labor costs in the restaurant industry have increased by 31%. The additional minimum wage increase proposed in this legislation would further strain the industry's operations.

The proposed elimination of the tip credit would also have a severe impact, potentially quadrupling labor costs for full-service restaurants. If the tip credit were eliminated, tipped employee earnings would drop substantially, as most restaurants would likely be forced to add service charges to customer checks to offset the increased labor costs. Customers are unlikely to tip in addition to service charges, and without tips as an incentive, servers may lose motivation to provide excellent customer service. As a result, restaurant operators could be forced to raise menu prices or cut jobs to stay afloat.

Contrary to claims made by supporters of the bill, there is no such thing as a "subminimum wage" for restaurant tipped employees. MD's minimum wage law permits employers to pay tipped employees a base wage of at least \$3.63 per hour. However, employers are legally required to make up any difference if a tipped employee's combined base wage and tips do not total at least the full minimum wage for the workweek, which is currently \$15 per hour under Maryland law. Tipped employees are among the highest earners in full-service restaurants, often making significantly more than the minimum wage when tips are 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.

Previous proposals in Maryland to eliminate the tip credit, whether statewide or locally in Baltimore City, Prince George's County, and Montgomery County, have failed due to strong opposition from tipped employees and restaurant operators.

These proposals are being pushed by an out-of-state activist group as part of their broader national agenda. Maryland's elected officials should reject these efforts, as they would undermine local restaurants and the tipped employees who support maintaining the tip credit.

The so-called "No Tax on Tips" provision in this legislation is misleading because the proposed elimination of the tip credit would effectively replace tipping with service charges to offset the higher base wages for tipped employees. As mentioned earlier, most customers are unlikely to tip in addition to service charges, which means there would be few, if any, tips subject to State income tax. While we support legislation that focuses solely on excluding tips from State income tax, we do not support this bill.

Lastly, the proposed \$10,000 tax credit for employers who choose to pay full minimum wage to tipped employees (before the tip credit is fully phased out) is minimal in comparison to the significant increase in labor costs.

For these reasons, we respectfully request an UNfavorable report.

Sincerely,

Susan L. Jones

Susan L. Jones
Executive Director

## HB1400\_USM.pdf Uploaded by: Andy Clark Position: INFO



# HOUSE ECONOMIC MATTERS COMMITTEE House Bill 1400 No Tax for Tips Act March 4, 2025 Letter of Information

Chair Wilson, Vice Chair Crosby and members of the committee, thank you for the opportunity to provide comment on House Bill 1400. The bill establishes consumer protections related to service fees charged by food service facilities, but more specifically, the bill raises the state's minimum wage rate.

The University System of Maryland (USM) is comprised of twelve distinguished institutions, and three regional centers. We award eight out of every ten bachelor's degrees in the State. Each of USM's 12 institutions has a distinct and unique approach to the mission of educating students and promoting the economic, intellectual, and cultural growth of its surrounding community. These institutions are located throughout the state, from Western Maryland to the Eastern Shore, with the flagship campus in the Washington suburbs. The USM includes three Historically Black Institutions, comprehensive institutions and research universities, and the country's largest public online institution.

The USM's regular-status employees are already paid wages above the \$20/hour threshold proposed by this bill. The impacts of raising the minimum wage, as proposed, would be tied to the USM's undergraduate student workers, who are often hired at the minimum wage. For example, Towson University (TU) relies heavily on student workers across multiple divisions. TU estimates the incremental cost of raising the current minimum wage to \$17/hour would be \$4.7M; to \$18.50/hour, another \$4.8M. The final increase to \$20/hour would add \$4.9M, for a total cost to TU of \$14.4M. Salisbury University (SU) would similarly be impacted. SU estimates the fiscal impact of raising the minimum wage to \$20/hour would be more than \$3M.

Most of the USM's institutions polled noted similar impacts.

Lastly, as you know, the USM's proposed budget reduction for FY26 equates to \$111 million. This is in addition to last year's cut and another mid-year cut to the FY25 budget leaves the USM down \$180 million cumulatively in FY25 and FY26. Adding additional policies at this time creates additional challenges for our campuses at an already difficult time managing budget reductions as well as the uncertainty of new policies and executive orders being imposed by the federal government.

Thank you for allowing the USM to provide this information regarding House Bill 1400.

































