MARYLAND
Chamber of Commerce

Senate Bill 823

Position: Unfavorable
Committee: Senate Finance
Date: March 5, 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.

Senate Bill 823 (SB 823) would increase the minimum wage from $15 to $20 per hour by July 1, 2028, eliminate 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 SB 823 purports to provide tax relief to tipped employees, it introduces 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. SB 823 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

SB 823 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, SB 823 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 **unfavorable report on SB 823**.