



Senate Bill 886

March 11, 2026

Position: **OPPOSE**

Madame Chair and Members of the Finance Committee:

The Restaurant Association of Maryland strongly opposes Senate Bill 886.

This legislation would substantially increase labor costs for foodservice employers and reduce the overall earnings of tipped employees. And because the bill also restricts a foodservice employer's use of service fees, most foodservice employers would be forced to reduce work hours and eliminate jobs because customers would reject the enormous menu price increases that would be needed to offset the higher labor costs this bill would impose. This would negatively impact customer service, which is a core part of the hospitality business.

The Tip Credit

Eliminating the tip credit, as proposed by this legislation, would increase labor costs for full-service restaurants by nearly 600 percent. And the proposed restrictions on service fees would make it more difficult for restaurant employers to offset the higher labor costs.

The tip credit was established under the federal Fair Labor Standards Act in 1966 and is also allowed under most state minimum wage laws (43 states allow it).

Maryland's minimum wage law allows employers to pay tipped employees a base wage of at least \$3.63 per hour (the base wage for tipped employees in Montgomery County is \$4.00 per hour). The tip credit is the difference between the minimum base wage and the full applicable minimum wage. Under state and local minimum wage law, employers are required 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. Therefore, restaurant tipped employees are guaranteed by law to earn at least the minimum wage, and most earn substantially more with tips included.

In 2025, the District of Columbia (D.C.) City Council partially repealed a tip credit elimination law that had caused a record number of restaurant closures and thousands of lost jobs.

The tip credit is critical to the full-service restaurant business model and has helped to facilitate the growth of full-service restaurants in communities where they can be affordable to the customers they serve.

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Outcome of Previous State/Local Tip Credit Elimination Bills

Previous Maryland proposals to eliminate the tip credit statewide and 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.

Proposed \$25 Minimum Wage

The restaurant industry is very labor-intensive and operates on razor-thin profit margins (typically 3-5% pre-tax margin). Our industry requires significantly more labor per \$1 million in sales than most other industries. Mandates that increase the cost of labor affect the restaurant industry disproportionately.

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. The minimum wage hike proposed by this legislation would exacerbate the operational challenges for our industry and would force many restaurants to close.

For these reasons, we respectfully request an unfavorable report on Senate Bill 886.

Sincerely,

A handwritten signature in black ink, appearing to read "Melvin R. Thompson", with a long horizontal flourish extending to the right.

Melvin R. Thompson
Senior Vice President
Government Affairs and Public Policy