

Tipped Workers Need Higher Wages, Not Costly Tax Gimmicks

Position Statement in Opposition to House Bill 201

Given before the House Ways and Means Committee

Tens of thousands of Maryland workers rely on tips some or most of their income. Because of our deeply unjust subminimum wage for these workers – only \$3.63 per hour, less than 25% of the full minimum wage – they are more likely than other workers to struggle to make ends meet. They also face greater risks of wage theft, racial discrimination, and sexual harassment. Policymakers must do more to support Maryland’s tipped workers – but higher wages, not costly tax gimmicks, are the solution. **House Bill 201 misdiagnoses the causes of tipped workers’ hardship, and would worsen the state’s budget deficit by up to \$59 million per year. For these reasons, the Maryland Center on Economic Policy opposes House Bill 201.**

The problem House Bill 201 purports to address is real. About 51,000 Maryland workers depend partly or mostly on tips, and too many are struggling to get by:ⁱ

- Restaurant servers and bartenders in Maryland typically took home less than \$36,000 per year in 2024.
- One-third of tipped workers have family income less than double the federal poverty line, and 42% have family income under \$50,000 per year.
- More than 80% of tipped workers are at least 20 years old and nearly half work full time. About 10,000 working parents depend on tips.
- 20% of tipped workers are Black and 15% are Latinx. Altogether, 47% of tipped workers are people of color.
- Nationwide, tipped workers are more likely than other workers to struggle to put food on the table.ⁱⁱ

However, the bill’s prescription is misguided. Maryland’s subminimum wage for tipped workers is the main culprit for these workers’ hardships:

- Maryland law allows employers to pay tipped workers as little as \$3.63 per hour. While the subminimum wage was historically kept at 50% of the standard wage floor, policymakers have repeatedly left tipped workers behind when raising the minimum wage. Because of this, the subminimum wage is now less than 25% of the full minimum wage.
- The tipped subminimum wage is a relic of racist New Deal-era compromises.ⁱⁱⁱ Lawmakers specifically excluded workers at restaurants and many other service industries from the nation’s first minimum wage law, then created the subminimum wage in 1966.

- While employers are theoretically required to fill the gap if tips do not bring a worker's total earnings to \$15 per hour, enforcing this requirement imposes administrative burdens on workers and exposes them to possible retaliation – which makes wage theft easier for bad actors.
- High-quality research has found that tipped workers face racial discrimination from customers, who typically leave higher tips for white servers than their Black counterparts.^{iv}
- Relying on tips also increases the risk of sexual harassment, as workers must choose whether to accept unwelcome or threatening behavior with a smile or risk a smaller or nonexistent tip. While sexual harassment occurs across all industries, it is more prevalent in the accommodation and food services industry, where women represent a majority of workers.^v

Guaranteeing tipped workers \$15 per hour with tips on top would boost wages by \$530 million per year, according to a 2024 analysis by the Economic Policy Institute.^{vi} Guaranteeing a true living wage would do even more.

Meanwhile, income taxes are a minor cost for tipped workers:

- Even before H.R. 1, the 2025 federal megabill, 37% of tipped workers already did not have high enough incomes to owe federal income tax.^{vii}
- In Maryland, state and local income taxes are a net positive for the low-income families who need the most help, because of our state Earned Income Tax Credit and Child Tax Credit.^{viii}
- Low- and middle-income Maryland families pay more in sales and excise taxes than state and local income taxes – but House Bill 201 does nothing to reduce these costs.^{ix}

The ostensible “benefits” of House Bill 201 are at most 11% as large as the gain from a guaranteed \$15 wage.

Moreover, House Bill 201 does a poor job of targeting tax cuts to those who need the most help – even more so than the federal deduction under H.R. 1:

- Because income tax rates increase alongside income, deductions and subtraction modifications always benefit households with higher incomes more than those with lower incomes. The tipped workers who face the greatest hardships would receive little or nothing at all.
- Similarly, House Bill 201 would reinforce racial discrimination among tipped workers by delivering smaller tax cuts to Black workers than their higher-tipped white counterparts. The bill would also increase tipped workers' incentive to accept sexual harassment from customers.
- Unlike H.R. 1, House Bill 201 does not cap the amount of income a household can deduct, does not phase out for the wealthiest households, and has no sunset date. To be clear, the bill is irreparably flawed – even with these guardrails, it would do more harm than good.
- While raising wages is the most effective way to support tipped workers, strengthening the Earned Income Tax Credit and Child Tax Credit (regardless of occupation or income source) would provide more targeted tax relief to those who need it most.

House Bill 201 would worsen to Maryland’s already daunting fiscal challenges by up to \$59 million per year:

- Legislative analysts predicted that a similar bill in Virginia would cost about \$65 million per year.^x
- Legislative analysts predicted that a similar bill in Arizona would cost about \$36 million per year.^{xi}
- Adopting the H.R. 1 deduction – with its guardrails – would cost Maryland \$59 million per year, according to the Institute on Taxation and Economic Policy.^{xii} This does not include local revenue losses.
- Based on the ITEP estimate, House Bill 201 could cut the FY 2027 general fund closing cash balance in half, or require nearly tripling Gov. Moore’s proposed cuts to school mental health services.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the House Ways and Means Committee make an unfavorable report on House Bill 201.

Equity Impact Analysis: House Bill 201

Bill summary

House Bill 201 would exempt tips from state and county income tax for tax filers who work in food or alcoholic beverage services, hotels, and taxicab or passenger-for-hire services.

House Bill 201 does not cap the amount of tip income subtracted, does not target specific occupations, does not limit eligibility by income, and does not include a sunset date.

Background

- About 51,000 Maryland workers receive part of their income in the form of tips.
- Maryland law allows employers to pay tipped workers as little as \$3.63 per hour, less than 25% of the standard minimum wage.
- As part of H.R. 1, Congress and President Trump in 2025 allowed workers in certain occupations to deduct up to \$25,000 in tips from their federal taxable income. This deduction phases out for households with annual income over \$150,000 (\$300,000 for married filers), and sunsets after tax year 2028.

Equity Implications

- Tipped workers typically take home lower incomes than other workers, and are more likely to be women or workers of color. In principle, increasing these workers’ take-home income would improve economic, racial, and gender equity.
- However, a tax deduction does little for low-income workers who already pay little in income taxes, poorly targets those with the greatest needs, and reinforce racial discrimination and sexual harassment.
- Moreover, House Bill 201 would reduce state revenues by up to \$59 million per year, making it harder to support public services like education, child care, and disability services that build economic opportunity for all Marylanders.

Impact

House Bill 201 would likely **worsen economic, racial, and gender inequity** in Maryland.

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- i Based on Economic Policy Institute Minimum Wage Simulation Model, with calculations by MDCEP (except where otherwise noted). See Technical Methodology by Dave Cooper, Zane Mokhiber, and Ben Zipperer, <https://www.epi.org/publication/minimum-wage-simulation-model-technical-methodology/>
- See Christopher Meyer, Maryland Center on Economic Policy favorable testimony on Senate Bill 160 of 2024, https://mgaleg.maryland.gov/cmte_testimony/2024/fin/1rJ9O2qAuLOU6Sl56lpfAflZyvU3dx467.pdf
- ii MDCEP analysis of 2017–2022 Current Population Survey IPUMS microdata (Food Security Supplement, Outgoing Rotation Groups, and Annual Social and Economic Supplement).
- iii See Meyer, 2024
- iv Michael Lynn, Michael Sturman, Christie Ganley, Elizabeth Adams, Mathew Douglas, and Jessica McNeil, “Consumer Racial Discrimination in Tipping: A Replication and Extension,” *Journal of Applied Social Psychology* 38(4), 2008, <https://onlinelibrary.wiley.com/doi/full/10.1111/j.1559-1816.2008.00338.x>
- v Jocelyn Frye, “Not Just the Rich and Famous: The Pervasiveness of Sexual Harassment across Industries Affects All Workers,” Center for American Progress, November 2017, <https://www.americanprogress.org/issues/women/news/2017/11/20/443139/not-just-rich-famous/>
- vi Meyer, 2024
- vii Ian Berlin and William Gale, “No Tax on Tips: An Answer in Search of a Question,” Brookings Institution, 2024, <https://www.brookings.edu/articles/no-tax-on-tips-an-answer-in-search-of-a-question/>
- viii “Who Pays? A Distributional Analysis of the Tax Systems in All 50 States,” Institute on Taxation and Economic Policy, 2024, <https://itep.org/whopays/maryland-who-pays-7th-edition/>
- Maryland’s 2025 state tax reforms further increased low-income households’ net benefit from income taxes.
- ix “Who Pays,” 2024. Maryland’s 2025 state tax reforms increased this disparity.
- x <https://lis.blob.core.windows.net/files/1023242.PDF>
- xi <https://www.azleg.gov/legtext/57leg/1R/fiscal/HB2081.DOCX.pdf>
- xii <https://itep.org/tips-overtime-income-tax-deduction-state-budgets/>