

POLLING MEMO: The Impacts of Tip Credit Elimination

MEASURING THE EFFECTS OF TIP CREDIT ELIMINATION AND OTHER MANDATES

Purpose

A recent Michigan Court of Claims ruling is set to raise the minimum wage over 31 percent to approximately \$13 per hour, along with a 206 percent increase in the required wage for tipped restaurant employees up to \$11.75 per hour, and require employers to provide 72 hours of paid sick leave for all employees.¹ This survey measures the likely impact of these changes on Michigan's hotel and restaurant operators, and the steps they will take to adjust to these cost increases.

Background

In 2018, Michigan's state legislature amended already-enacted ballot measure language that would have raised the state's minimum wage to \$12 per hour by 2022.² In July 2022, the Michigan Court of Claims voided the legislature's amendments, reverting the state back to the original 2018 ballot measure language. If the Court's ruling is upheld and the state's minimum wage and paid sick leave laws change accordingly on February 19, 2023, the regular minimum wage will automatically spike to approximately \$13 per hour, the tipped minimum wage will rise to \$11.75 per hour, and employers will be required to provide the 72 hours of paid sick leave to all employees.

Methodology

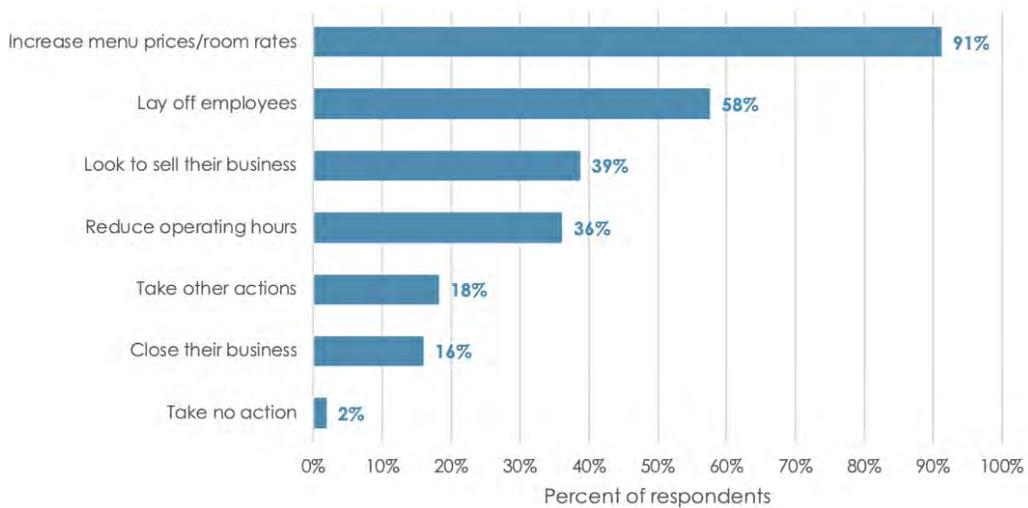
This survey was conducted by the Michigan Restaurant & Lodging Association from September 6-9, 2022. The data represent 307 responses from restaurant and hotel operators representing nearly 2,000 locations and over 75,000 employees—or roughly 24 percent of Michigan's hospitality industry.

1 https://www.thecentersquare.com/michigan/crippling-effect-michigan-business-restaurant-groups-react-to-minimum-wage-ruling/article_6b55f16e-083d-11ed-9eb2-8bf69629502.html

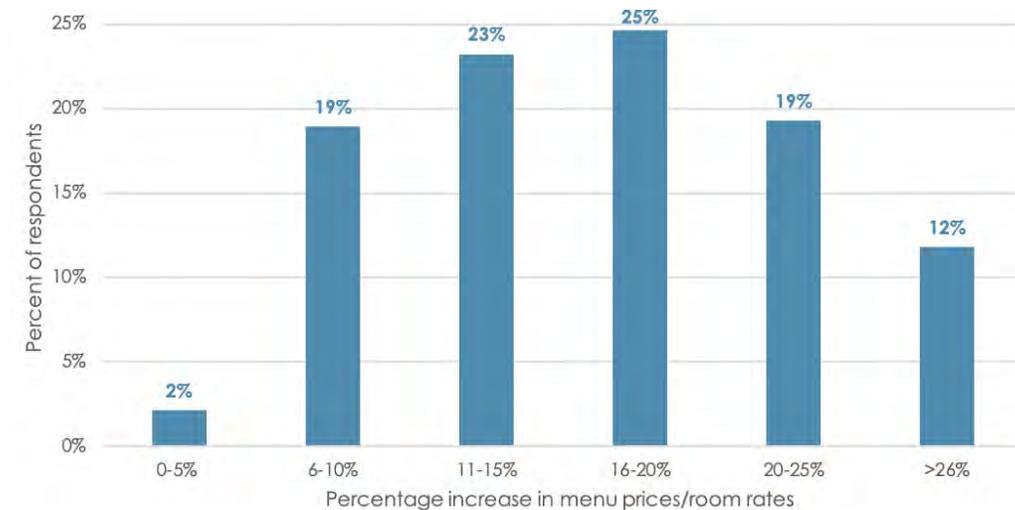
2 [https://ballotpedia.org/Michigan_Minimum_Wage_Increase_Initiative_\(2018\)](https://ballotpedia.org/Michigan_Minimum_Wage_Increase_Initiative_(2018))

Results

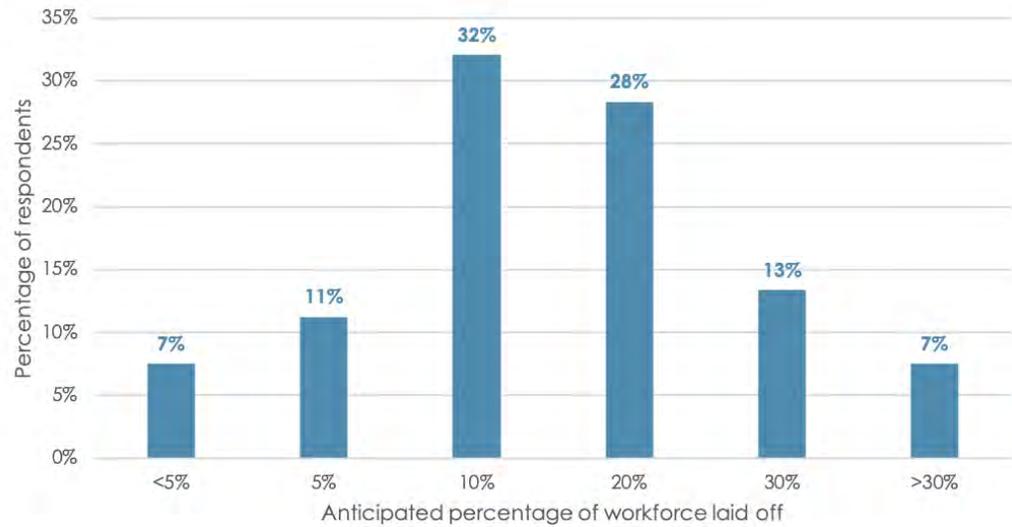
To offset increased costs if the Court's ruling is upheld, restaurant operators said they will be forced to do the following:



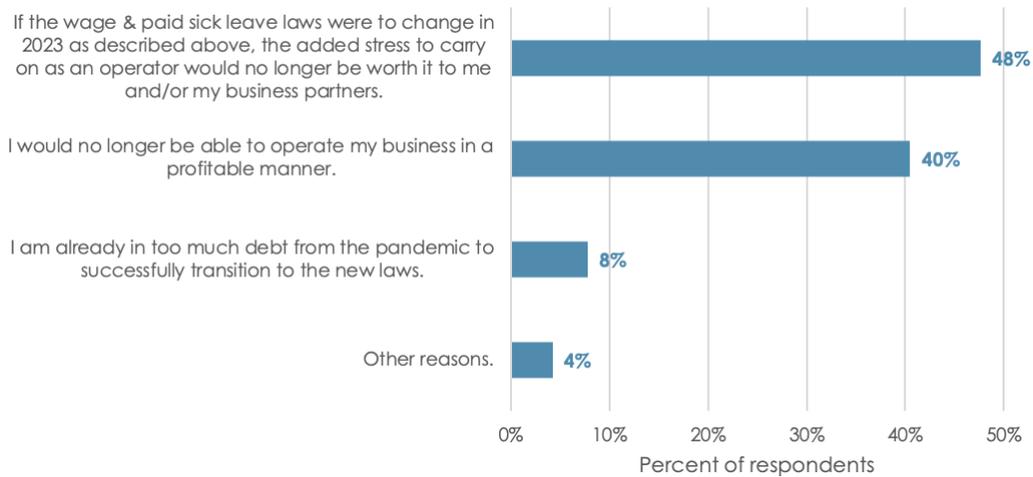
Seventy-nine percent of operators estimated the mandates would cause menu price or room rate increases by more than 10 percent. Nearly one-third estimated prices would have to increase more than 20 percent.



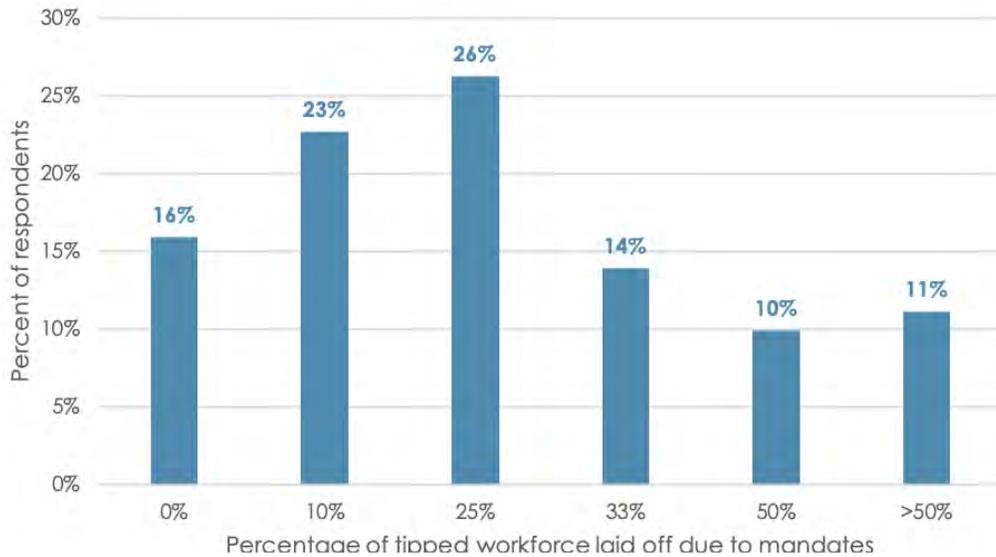
Eighty-one percent of operators estimated they would be forced to lay off at least 10 percent of their workforce.



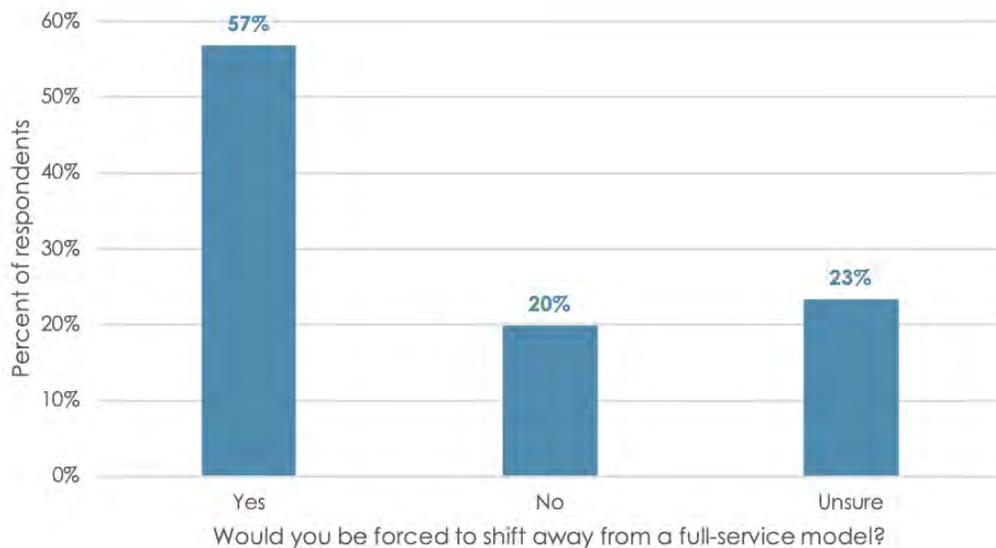
Operators responded that the mandates would force them to sell or close their business for the following reasons:



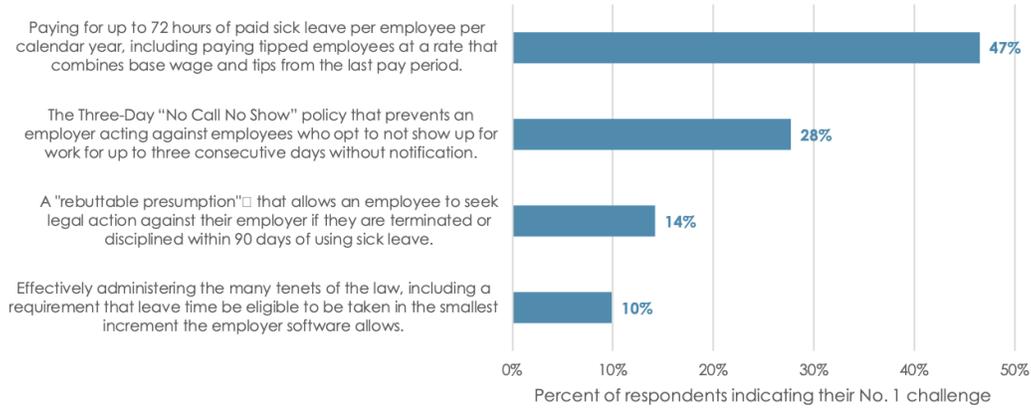
Eighty-four percent of full-service restaurant operators indicated they would be forced to lay off at least 10 percent of their tipped workforce. Sixty-one percent estimated they would have to lay off more than 25 percent of their tipped employees.



More than half of Michigan's full-service restaurants responded they would shift away from a full-service model.



Restaurant operators ranked the following as greatest obstacles to adapting to the new paid sick leave requirements:



Testimonials

The survey asked restaurant operators to relay any additional thoughts on the Court's ruling and upcoming changes to the minimum wage and paid sick leave laws. The following represent quotes from respondents on the devastating impacts these mandates would bring.



...We are struggling as it is with increased costs across every line.



Putting these laws into practice will just hinder the foundations that this industry is there for.



...making these changes would just drive prices up and cripple an industry that is already crippled.



I have to raise prices due to [the] cost of products. If I raise them again to cover increased employee costs, no one will come and eat at my restaurant.



My business is in a rural area and my employees would have a hard time finding other work because they cannot drive 30 miles one way to do it...



Our company is likely to stop development in Michigan if these statutes are overturned.



[We] cater to an elderly crowd who have been dining with us since day one. Price increases will definitely affect their fixed incomes and my bottom line.



My tipped employees make over \$40 per hour, and I would have to add a surcharge to my patrons' bills to support this.



The servers are worried that people will stop tipping... if our prices increase.



I pay medical benefits as well as employer match retirement benefits open to all full time or other qualifying staff. Increasing the operating costs so drastically would make it difficult if not impossible to continue with these benefits.



We would move away from full service to a QR code table service.



We are a small independent family restaurant. We pay good wages, free health care and bonuses. If this goes through this could be the tipping point for us.



It simply is not possible to increase the tipped wage that much and keep everyone employed. We would be forced to reduce our staff.



The American dream of owning your own business will be going away permanently with these changes. They will only hurt the people they claim they are helping.



This will be the nail in the coffin for many.



Our servers/bartenders make at least \$20 per hour in tips alone and this is on a very slow day. They average between \$27-35 per hour... The servers are worried that people will stop tipping as well if our prices increase.



This would crush the industry.



This will probably put me out of business.



Please help us save our industry.



I don't understand this effort as my servers are against it at its core. It's a solution looking for a problem...



We would lose employees. Dinners out would be less due to huge price increases. Unaffordable.