

## **BACKGROUND ON THE TIPPED MINIMUM WAGE AND LEGISLATIVE OPTIONS**

### **Tipped Minimum Wage Background:**

- Under Vermont’s current law, the tipped minimum wage is 50% of the standard minimum wage or \$5.25 per hour
- An employer in the hotel, motel, tourist place, or restaurant industry can pay the tipped minimum wage to employees “who customarily and regularly receives more than \$120.00 per month in tips for direct and personal customer service.”
- The federal tipped minimum wage is \$2.13 per hour.
  - The federal tipped minimum wage has not increased since 1991.
- Under federal law and Vermont law, if an employee does not receive sufficient tips in a work week to earn at least the minimum wage for all hours worked that week, the employer must make up the difference.
- 26 states, including every state in New England, plus Washington D.C. have a tipped minimum wage above the federal tipped minimum wage.
- An additional seven states, Alaska, California, Minnesota, Montana, Nevada, Oregon, and Washington, do not have a tipped minimum wage, meaning that tipped employees receive the standard minimum wage plus tips.
- 17 states have a tipped minimum wage that is equal to the federal tipped minimum wage.

### **Legislative Options for the Tipped Minimum Wage**

#### **Option 1: No Change to Existing Tipped Minimum Wage Law**

- Tipped minimum wage will continue to be 50% of the standard minimum wage.
  - If the minimum wage is increased to \$15.00, the tipped minimum wage will reach \$7.50.

#### **Option 2: Increase Tipped Minimum Wage by CPI or 5%, whichever is less**

- Tipped minimum wage would keep pace with inflation, growing at the same rate as it would if there was no change to the existing minimum wage law.
- If the minimum wage is increased, the value of the tipped minimum wage as a percentage of the standard minimum wage would decrease.
- This option is similar to Washington, DC, where the tipped minimum wage will increase by the CPI after it reaches \$5.00 in 2020.

**Option 3: Freeze the Tipped Minimum Wage at \$5.25**

- The value of the tipped minimum wage as a percentage of the standard minimum wage will decrease.
- Future increases in the tipped minimum wage would require legislative action.
- Several other states, including Massachusetts (\$3.75), have set their tipped minimum wage at a fixed amount.

**Option 4: Reduce the Difference between Minimum Wage and Tipped Minimum Wage**

- Two different approaches to reduce the difference between the standard and tipped minimum wages:
  - Change the ratio of the tipped minimum wage to the standard minimum wage.
    - For example, in New York, the tipped minimum wage is equal to  $\frac{2}{3}$  of the minimum wage or \$7.50, whichever is more.
  - Set a fixed tip credit.
    - In Arizona, the tipped minimum wage is equal to \$3.00 less than the standard minimum wage.
- The first approach is similar to Vermont's current law.
- The second approach would provide for quicker growth in the tipped minimum wage.

**Option 5: Eliminate the Tipped Minimum Wage**

- Could be done immediately or gradually.

**Option 6: Reduce the Tipped Minimum Wage**

- The tipped wage could be reduced to as low as \$2.13 per hour.
- Could either reduce the percentage of the standard minimum wage or set the tipped minimum wage at a fixed amount below the current tipped minimum wage.
  - In New Hampshire, the tipped minimum wage is equal to 45% of the standard minimum wage.
  - In Massachusetts, the tipped minimum wage is \$3.75 per hour.