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# Why NYC Restaurants Need The Tip Credit



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New York State Governor Andrew Cuomo sent shock waves through the restaurant industry by announcing that he will hold public hearings to examine if he should eliminate the tip credit. The tip credit allows tipped workers to be paid a lower minimum wage, as long as they earn at least the full minimum wage when their tips are included. If they don't, the law requires that the employer pay the difference to the employee.

However, there are thousands of tipped employees throughout New York who make well in excess of the minimum wage. A New York City Hospitality Alliance survey of 486 city restaurants, which employ nearly 14,000 tipped workers found that those servers earn on average, \$25 per hour.

The tip credit helps New York City restaurants reduce their direct labor costs and survive in what many industry experts consider to be the most expensive and challenging business environment in the country. For example, a restaurant in Manhattan that generates \$3 million in annual sales may spend up to \$300,000 in wages for tipped employees. If New York State eliminates the tip credit, it would cost this restaurant approximately \$160,000 in additional wages, taxes and workers' compensation expenses. If this business is running a solid 10% profit margin, it will be chopped in half by more than 50%. Alternately, if the restaurant runs a 5% profit margin, they will land \$10,000 in the red. And because restaurants are already receiving complaints from customers about increased menu prices, there doesn't appear to be room to recoup this significant expense through additional price increases without ramifications.

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Interestingly, it's not only restaurant owners who want to preserve the tip credit. Last year, after voters in Maine eliminated their tip credit through referendum, the state's legislature overwhelmingly voted to restore the tip credit after an outcry from tipped restaurant workers. The workers worried that employers would be forced to reduce their hours and eliminate jobs due to the increased expense. They were fearful that the increased menu prices needed to cover the costs would result in fewer customers and less take home pay because diners would leave smaller tips. They were concerned that restaurants would switch to a no tipping business model as a way to control costs, which would result in lower wages.

Unsurprisingly, tipped workers in New York have begun organizing and voicing the same concerns as their fellow servers in Maine - and with good reason. By the end of this year, recent labor mandates for restaurants in New York City include a 100% increase in the tip wage. There will have been six consecutive annual minimum wage increases. The minimum weekly rate for salaried employees increased by \$300. On top of that there was mandated paid time off and skyrocketing healthcare costs.

These mandates have already resulted in increased menu prices for the consumer and exacerbated the disparity of income between tipped employees and kitchen workers, who are prohibited by law from earning a fair share of the tips. Restaurateurs will tell you that they have cut workers' hours, eliminated jobs and even shuttered restaurants. And according to a [recent report](#), 80% - 90% of

restaurant jobs in New York City are subject to automation. So shouldn't we focus our collective conversation on how we can protect existing jobs, instead of eliminating the tip credit and putting restaurants, workers' income and jobs in peril?