



# LOUISIANA RESTAURANT OPERATOR TOOLKIT

on Elimination  
of the Tip Credit

## SAVE OUR TIPS TOOLKIT

As you may know, the Raise the Wage Act would force the end of the tip credit system and is expected to be voted upon in before mid-March 2021. This measure would be devastating for the restaurant industry and have ripple effects on Louisiana's economy as a whole—potentially resulting in closed restaurants and lost jobs. Many very well-intentioned people will undoubtedly support it, believing the changes will help, rather than hurt, waitstaff and other restaurant workers. We need to educate them on the true impact of eliminating the tip system.

The following toolkit is designed to help those in the impacted communities speak out, talking to our fellow staff, customers, friends, neighbors and the press about what the elimination of the tip credit could mean for us.

### **The toolkit includes:**

- Talking points for owners-operators
- Talking points for tipped staff
- FAQ on what the what the Raise the Wage Act will do
- Why Everyone—Not Just Restaurant Workers—Should Oppose Eliminating the Tip Credit
- Visit: [whytippingworks.com](http://whytippingworks.com) for more info

If you have any questions about how to use this toolkit or about the campaign, please contact Wendy Warren at [communications@lra.org](mailto:communications@lra.org).

# WHY EVERYONE SHOULD OPPOSE ELIMINATING THE TIP CREDIT—NOT JUST THOSE IN THE RESTAURANT INDUSTRY

The Raise the Wage Act proposes to increase the tipped minimum wage to \$15 per hour and eliminate the tip credit. Restaurant owners and workers are united in opposition to this act for the disastrous consequences it could have on Louisiana's restaurant industry, its employees and customers—and greater economy as a whole.

## IT'S NOT NECESSARY: LOUISIANA TIPPED WORKERS ALREADY MAKE THE MINIMUM WAGE AND USUALLY MUCH MORE

Employers are legally required to ensure that tipped employees make at least the minimum wage. If a tipped employee's base wage plus tips doesn't equal the minimum wage, the restaurant is required to make up the difference. This rarely needs to happen, though, because tipped employees in Louisiana earn on average between \$18-24 an hour—well above minimum wage.

## IT WILL HAVE DRAMATIC CONSEQUENCES—FORCING RESTAURANTS TO CUT SHIFTS, RAISE PRICES AND HURT THE PEOPLE IT'S MEANT TO HELP

Restaurants operate on extremely thin profit margins. It wouldn't be possible for most restaurants to absorb an additional \$12/hour raise per employee without making other dramatic changes to their business models. In states where the "tip credit" system (by which employers make up the difference if an employee's base wage plus tips is below minimum wage) has been replaced by a higher flat wage, many restaurants have:

- Replaced tipping with a menu "service charge," which may or may not be kept by the servers;
- Reduced staff size;
- Reduced available shift hours;
- Eliminated overtime; and/or
- Increased menu prices.

## LOSS OF JOBS

Research shows that increases to the tipped wage result in a loss of work opportunities. Economists William Even at Miami University and David Macpherson at Trinity University examined 20 years of federal data to assess the impact of state increases to the tipped employee category. The authors found that past increases in the tipped wage have reduced fullservice restaurant employment.

## MORE RESTAURANT CLOSURES

More recently, economists at Harvard Business School and Mathematica Policy Research examined minimum wage increases in the Bay Area—where a high minimum wage is combined with the lack of a tip credit. The authors found that the rising minimum wage had increased the rate of restaurant closures.

## RESTAURANT SERVERS AND STAFF OPPOSE IT

A Google survey found that nearly 60 percent of restaurant staff would oppose even a \$15 minimum wage if it meant they can no longer receive tips.

## CONSUMERS OPPOSE A TIP-FREE SYSTEM

A survey of 3,000 U.S. consumers by Horizon Media found that a whopping 81% prefer the status quo to a tip-free alternative.

## IT HASN'T WORKED: EXPERIMENTS WITH TIP-FREE DINING HAVE BEEN DISASTROUS

Restaurateur Danny Meyer famously **eliminated tipping** at his some of his restaurants in 2017, only to reveal in February that as much as 40 percent of longtime front-of-house staffers left the company after the change. The staff were paid significantly less than before the changes were implemented.

San Francisco restaurants Trou Normand and Bar Agricole estimated they lost 70% of their wait staff during a tip-free experiment in 2015, despite the higher salaries. Owner Thad Vogler told CNN Money that his servers in San Francisco were making as much as \$45 an hour with tips, a figure that fell as low as \$20 in a no-tipping environment.



# FREQUENTLY ASKED QUESTIONS ABOUT THE “TIPPED MINIMUM WAGE” AND THE RAISE THE WAGE ACT

## WHAT IS THE RAISE THE WAGE ACT, AND HOW DOES IT AFFECT RESTAURANT WORKERS? A

The Raise the Wage Act was introduced in January 2021 under President Biden’s American Rescue Plan. It proposes to increase the federal minimum wage to \$15 per hour and eliminate the tip credit.

### COOL. THAT’S A GOOD THING, RIGHT?

Requiring that all staff earn at least minimum wage is definitely a good thing. It’s also already the law.

Louisiana follows federal law that requires that all tipped employees make the minimum wage through a combination of their base wage plus tips, and strong protections are in place to ensure this happens. Employers must keep records documenting that employees’ earned tips plus base wage equals at least the federal minimum wage. If those earnings ever fall below minimum wage the employer must “make up” the difference. The penalties for skirting this law are massive, and not a place that employers want to find themselves.

That said, Louisiana restaurant owners rarely have to “make-up” the difference to get workers to minimum wage because, Louisiana tipped workers make well above minimum wage—typically \$18-24/hour or more. The Raise the Wage Act’s inclusion of the Elimination of the Tip Credit seeks to save a problem that doesn’t exist.

### HUH. THEN WHAT’S THE RATIONALE FOR ELIMINATING THE TIP CREDIT? WHO’S BEHIND IT?

The Raise the Wage Act was a pillar in the Biden Presidential Campaign and is championed by the Restaurant Opportunities Center (also known as “ROC”). ROC is a national organization that wants to eliminate the tipped wage system however, the Restaurant Workers of America oppose this.

### SO, WHAT WOULD THIS MEAN FOR LOUISIANA RESTAURANT WORKERS AND OWNERS?

This measure would dramatically change the way Louisiana restaurants do business. Essentially, workers who are now well-paid with strong extra earning potential would move to a system in which they receive an hourly wage provided by their employer. Because very few restaurants could afford to pay workers \$15/hr PLUS tips, many would compensate by switching to a flat “service charge.”

Tipped employees will almost certainly earn less in this model. To give one example, in San Francisco, owner Thad Vogler told CNN Money that his servers were making as much as \$45 an hour with tips, a figure that fell as low as \$20 in a no-tipping environment.

Other restaurants who eliminated the tip credit were forced to reduce hours, reduce staff size, increase menu prices, replace tipping with set hourly wages, and/or close their restaurant. Most notably, restaurateur Danny Meyer (Gramercy Tavern, Union Square Café, Shake Shack, etc) went to a “tip included” environment in his restaurants—only to see 40 percent of his long-time front-of-house staff leave, complaining that their earnings were down significantly.

## **OKAY, WHAT DOES THAT MEAN FOR TIPS? WOULD PEOPLE STILL TIP?**

Typically, when this type of change has been implemented in other places, restaurants eliminate tipping, adding a service charge to a customer's bill. But unlike with a tipping model, the service charge doesn't automatically go to the server and other front-of-house staff, and instead will have to partially go to the restaurant to subsidize the increase in the base wage of all employees, which means tipped employees will have a lower take home pay.

## **I'VE HEARD THAT GETTING AWAY FROM A TIPPING MODEL WOULD LESSEN SEXUAL HARASSMENT FROM CUSTOMERS WHO THINK FEMALE SERVERS ARE THERE TO, AHEM, "SERVE" THEM. THAT MAKES SENSE TO ME.**

No doubt, sexual harassment is a huge problem societally, and the restaurant industry certainly isn't immune. We support measures to protect waitstaff from unwelcome advances—from customers and other staff. ServSafe Workplace offers online training on sexual harassment for managers and operators. But studies show eliminating tipping doesn't meaningfully address the issue. Even using data from ROC's own reports, there is no statistical difference between sexual harassment reported in tip credit states vs. no-tip states.

## **WHAT'S HAPPENED WHEN THIS HAS BEEN IMPLEMENTED ELSEWHERE?**

New York provides an example of the catastrophic results when this status quo is overturned. A state wage board appointed by the governor increased the base for tipped employees by more than 50 percent in 2015, regardless of whether they were already earning far more than minimum wage with tips included. The state's restaurants were forced to give their highest-paid employees a raise — and raise prices, cut staff and business hours, or close their doors to adapt to the higher costs.

Census Bureau data show that New York lost over 500 restaurants in 2016, a stark reversal from years of increases. In New York City, full-service restaurant employment growth catered to roughly one percent, after growing at 6-7 percent on average in the previous five years.

## **WHAT ELSE SHOULD WE KNOW?**

The current system works. In surveying tipped employees, owners and operators across the nation, industry professionals want to preserve the tip system as it allows for a significantly higher income than an hourly wage, even if that hourly wage were to go to \$15.