



Short Changed

Ending Income Taxes
On Tips Will Not Make
Subminimum Wages Livable

OFW
ONE FAIR WAGE

July 2024



INTRODUCTION

In the midst of a post-pandemic affordability crisis, the minimum wage in general and the the subminimum wage for tipped workers in particular — and campaigns to end it — have been gaining attention in recent months. So much so, that the Republican nominee for president of the United States has proposed ending income taxes on tips as a way to increase service workers’ incomes.¹ In response, U.S. Senator Ted Cruz drafted the ‘No Tax on Tips Act’ which would end income taxes on tipped income, but would not end payroll taxes on tips.²



The Center For American Progress found that Cruz’s bill “leaves out more than 95 percent of low- and moderate-wage workers,” because few workers in the overall U.S. workforce receive tips.³ Yet One Fair Wage’s analysis of tipped restaurant worker data shows that even among tipped workers, nearly two thirds (65 percent) would *not* benefit from this proposal either as they or their household do not earn enough money to pay income taxes.

The subminimum wage for tipped workers, still just \$2.13 an hour federally, means that tipped restaurant workers face among the lowest incomes of any workforce, the highest rates of sexual harassment of any workforce, and the greatest economic instability of any workforce.⁴ Even among the one-third of tipped workers who would benefit from this tax relief, this tax relief would be experienced once a year at tax time, and would not relieve their need to pay rent and bills all year round. Exempting these workers from taxes would do little for tipped restaurant workers, while providing these workers with a full, livable minimum wage with tips on top would significantly improve their economic stability and workplace safety.

The subminimum wage for tipped workers is a direct legacy of slavery; after Emancipation, Black workers were locked into no-wage and low-wage work.⁵ Employers in the hospitality sector hired newly freed slaves for no wage, with the expectation that their income would come from tips received from white patrons. In 1938, when the first federal minimum wage was enacted, the law still allowed employers to pay tipped workers as little as \$0 an hour, arguing that minimum wages could be

obtained via tips.⁶ In 1966, worker advocates secured a guaranteed base wage for tipped workers, but they were only allowed to receive 50 percent of the overall minimum wage.⁷ In the 1990s, the National Restaurant Association lobbied and convinced politicians to freeze the subminimum wage for tipped workers.⁸ As a result, the subminimum wage for tipped workers has been capped at \$2.13 an hour for the last 30 years since 1991 — an increase of only \$2 over 150 years since Emancipation.



KEY FINDING

Tipped Restaurant Worker Wages in the United States Do Not Earn Enough Money to Pay Taxes

While the national median individual income in the United States is \$40,480, tipped restaurant workers median individual income is just 37 percent of the national median income, at only \$15,198.^{9,10} High earning tipped restaurant workers are nearly nonexistent, and over 95 percent of these workers earn less than \$53,000 a year.¹¹

The annual income of tipped restaurant workers is so low that 46 percent of tipped restaurant workers do not even earn \$13,850 — the income threshold for a single individual to pay federal income taxes.¹² On top of this 46 percent, One Fair Wage found that of workers making above \$13,850 a year, approximately 38 percent — or 20 percent of all tipped restaurant workers — are in households that do not pay income

taxes because their combined income is too low.^{13,14} This means that 66 percent of tipped restaurant workers would see no benefit from ending income taxes on tips.

When tipped workers' wages are too low to benefit from a tax exemption, the only real solution to their current affordability crisis is to raise the minimum wage and end the subminimum wage for tipped workers.

1 | US Tipped Restaurant Workers' Wages Are Too Low

Research has shown tipped workers earn among the lowest wages of any workforce in the country. The Economic Policy Institute reported that “tipped workers experience a poverty rate nearly twice that of other workers,” and that tipped workers in subminimum wage states are more likely to live in poverty than in fair wage states (states that pay at least the full minimum wage with tips on top).¹⁵

While the national median individual income in the United States is \$40,480, tipped restaurant workers median individual income is just 37 percent of the national median income, at only \$15,198.^{16,17} In fact, nearly 90 percent of tipped restaurant workers earn below the national median income.¹⁸

› 80 percent of tipped restaurant workers in the United States earn under \$30,781.

› **90 percent of tipped restaurant workers in the United States earn under \$41,336.**

› **95 percent of tipped restaurant workers in the United States earn under \$52,608.**¹⁹

Higher-income earners are almost nonexistent in this field, with a mere 1.3 percent of these workers earning \$80,000 a year or more. To put this in perspective, only half of a percent – 1 out of every 200 tipped restaurant workers – earns \$100,000 a year or more.²⁰ Meanwhile, 18 percent of all individual income earners nationally earn \$100,000 a year or more – 36 times higher than the percentage of tipped restaurant workers.²¹

2 | **Tipped Workers Do Not Earn Enough Money To Pay Taxes**

Under federal tax law, income thresholds, credits, and deductions change the tax rate individuals and households pay. The income threshold for a single individual to pay federal income taxes is \$13,850.²² The percentage of households that pay income taxes varies; less than 7 percent of households earning \$10,000 – \$20,000 pay income taxes, while 53 percent of households earning \$40,000 – \$50,000 pay income taxes.²³

With the annual income of tipped restaurant workers being so low, 46 percent of tipped restaurant workers do not earn enough money to pay income taxes based on their individual income (\$13,850 or more).^{24,25} One Fair Wage analysis of household income for tipped restaurant workers who reported personal income above \$13,850 found that approximately 38 percent of those workers are in households that do not earn enough to pay income taxes, or 20 percent of all tipped restaurant workers.^{26,27} This means that in total, 66 percent of tipped restaurant workers would see no benefit from ending income taxes on tips.



CONCLUSION

While the campaign rhetoric around ending taxes on tips rings hollow when looking at the need for real living wages, the Republican play for working class, marginalized, and young voters by way of highlighting the issues around tipped wages is very real. But the real solution these groups are calling for is not the once-a-year tax exemption on tips- it is living wages with tips on top all year round.

In November 2023, the Center for Information and Research on Civic Learning and Engagement (CIRCLE) released polling of young people 18-34 showing that over half (53 percent) chose the cost of living/inflation as their highest priority issue, followed by jobs that pay a living wage (28 percent).²⁸ Similarly, the Institute of Politics at the Harvard Kennedy School of Government released its latest Harvard Youth

Poll in April that found cost of living and inflation were the *highest polled concerns*, with 64 percent of young people 18-29 saying it was one of their three top concerns.²⁹

The concerns of young people about the economy are shared by people of color and the LGBTQ community. MSNBC published the results of a poll conducted by UnidosUS and Mi Familia Vota, who asked 3,037 Latinos to pick the most important issues for Congress to address. Inflation and the rising cost of living was the top concern for Latinos (54 percent) and jobs and the economy came in second (44 percent).³⁰ NBC News has also reported on focus groups of Black voters who overwhelmingly shared their concerns about the economy.³¹ In March, ABC News found LGBTQ voters share these same concerns as young voters, Latino/a voters, and Black voters, with members of this community also saying their top concern is the economy.³²

One Fair Wage has continuously warned that large groups of voters, including youth voters, tipped workers, communities of color, LGBTQ people, and working class families are looking for leaders who will focus on improving economic security in their communities. While the Republican nominee for president would have no chance to woo voters with policies that short change tipped workers, candidates who actually want to win should address the real solution working people in the United States are calling for: ensuring living wages for all who work.

ENDNOTES

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