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Washington D.C. Votes Against the Tip Credit

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Washington, D.C. voters have approved an initiative that will gradually phase out the tip credit in the District. Known as the Increase Minimum Wage for Tipped Employees Measure, Initiative 82 passed on November 9, 2022, and will eliminate the tip credit by 2027, at which time employers must pay their tipped employees the full minimum wage.

Washington D.C.'s Current Tip Laws

The current minimum wage in the District of Columbia is \$16.10 per hour. Under D.C. law, however, a hospitality employer may take a tip credit of up to \$10.75 against its minimum wage obligations by paying tipped employees a cash wage of \$5.35 and using the employee's anticipated tips to cover the difference.

The tip credit may also be applied against the wages of tipped employees who work outside of the hospitality industry, such as hairdressers, valets, bellhops, barbers and nail stylists.

As long as the tipped employee's \$5.35 hourly cash wage plus their hourly tip earnings (averaged weekly) meets or exceeds the minimum wage of \$16.10 per hour, the tip credit is proper.

Regular Minimum Wage	Maximum Tip Credit	Minimum Regular Cash wage
\$16.10	\$10.75	\$5.35

Elimination of the Tip Credit in D.C.

Initiative 82 will gradually phase out the tip credit by reducing the acceptable tip credit year over year until it is eliminated, thereby raising a tipped employee's minimum hourly cash wage before tips. By 2027, employers will no longer be able to take a tip credit and will be required to pay tipped employees \$16.10 per hour, exclusive of any tips they receive from guests.

Beginning January 1, 2023, the tip credit will be phased out as follows:

Date	Maximum Tip Credit	Minimum Regular Cash Wage
January 1, 2023	\$10.10	\$6.00
July 1, 2023	\$8.10	\$8.00
July 1, 2024	\$6.10	\$10.00
July 1, 2025	\$4.10	\$12.00
July 1, 2026	\$2.10	\$14.00
July 1, 2027	\$0.00	\$16.10

This is not the first time D.C. has voted to eliminate the tip credit. In 2018, D.C. voters approved Initiative 77, which would have eliminated the tip credit by July 2025. However, the D.C. Council overturned the referendum in an emergency vote. At this time, there is no reason to believe that the D.C. City Council will overturn Initiative 82.

Next Steps

Unless other action is taken, in less than two months, the tip credit will shrink from \$10.75 to \$10.10 per hour and hospitality employers will be required to pay their tipped employees a cash wage of \$6.00 per hour (up from \$5.35). Six months later, on July 1, 2023, the permissible tip credit will be reduced another two dollars, thereby requiring hospitality employers to pay a cash wage of \$8.00 per hour to tipped employees. The tip credit will continue to decrease on a yearly basis until it is eliminated entirely.

Employers with tipped employees should update their payroll practices to ensure that beginning January 1, 2023, they are taking the proper tip credit and are advised to engage in careful budgeting to ensure that the reduced tip credit has a minimum impact on their bottom line.

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