



## Elimination of the Chicago Tip Credit Talking Points

Illinois Operator Version

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### **ECONOMIC CONTEXT – *Talk about the current state of your operation, how have your costs gone up and how are you managing them.***

- Restaurants can't easily absorb or pass on operating price increases.
  - The typical small business restaurant run on a 3-5% pre-tax margin.
  - Food and labor costs are the two most significant line items for a restaurant, **each** accounting for approximately 33 cents of every dollar in sales. Other expenses – typically non-controllable costs like rent, utilities, credit card swipe fees, repairs/maintenance, administrative costs – generally represent about 29% of sales.
  - For the vast majority of us (restaurant operators), **these three categories are making up a larger share of sales than they did before the pandemic.**
- Restaurant operators are juggling more than three years of increasing food costs and three straight years of double-digit payroll growth.
  - Between December 2019 and November 2023, average hourly earnings of eating and drinking place employees jumped 30% - from \$15.50 to \$20.07 (+\$4.57 an hour).
  - In the same time (December 2019 - November 2023), average food costs were up 22%.

### **WHAT THIS MEANS FOR RESTAURANTS - *What will it mean for you to be responsible for \$5.60/hour more per tipped employee?***

- Eliminating the tip credit is not a raise for tipped employees. It simply shifts the responsibility for the full hourly minimum wage to me.
- All tipped workers in restaurants already make at least the state's minimum wage with their cash wage and tips combined. If they are not – I am responsible for the difference to bring them to the minimum wage for every hour they worked.
- The elimination of the tip credit will fundamentally change my business model. I can't bear the increased cost of several dollars more an hour for the same number of formerly-tipped employees.
- **Because, when the tipped wage is eliminated, operators like me become responsible for the difference between the current tipped wage and the current hourly minimum wage.** Using the current state minimum wage and tip credit as an example, this means I will go from paying \$8.40/hour to \$14/hour – **an increase of \$5.60/hour – or about 40% more for me to have to now budget for.**

- I want restaurant owners like me to have compensation choices that work best for our business model and give workers the earning potential they've come to rely on.

#### **WHAT THIS MEANS FOR TIPPED RESTAURANT WORKERS – *Talk about how your tipped employees earning potential would be impacted?***

- There's a reason people choose tipped restaurant jobs – they know the economics are in their favor. **The median fullservice restaurant tipped worker makes \$28.48/hour in Illinois** - and no tipped worker ever makes less than the state's minimum wage for any hour they work.
- This means that tipped workers have a far higher earning potential in the current system of tipping than they would if the tip credit were eliminated, and their income was cut to an hourly minimum wage.
- Many servers choose restaurants as a career because their skills and knowledge mean high earning potential in a job that's flexible to their needs. For others, they're looking for something – extra income, customer interaction, business skills – that make the opportunity ideal.
- The current system of tipping means that the industry can fit all their needs. Eliminating the tip credit will rob these workers of their earning potential, possibly pushing them to leave their industry careers and would fundamentally change the business model of hundreds of thousands of restaurants across the country.
- Washington, D.C. is in the process of eliminating the tip credit. They've increased their tip wage by \$2.65 in less than a year.
  - The city began phasing out the tip credit in May 2023. Between May-November, more than 1,100 jobs in fullservice restaurants have been lost – while the city's Maryland and Virginia suburbs have added 2,000 jobs in the same period.
  - According to a National Restaurant Association survey – 2 in 5 frequent D.C. diners have been eating out less and one-third have been choosing to eat out in the suburbs more to avoid restaurants with increased menu prices and automatic service charges.
  - In the same survey, frequent D.C. diners said if restaurants continued increasing their menu prices or implementing an automatic service charge, they would be less likely to dine in those restaurants.

#### **2022 ILLINOIS TIP WAGE DATA**

- According to research by the National Restaurant Association, waitstaff at Illinois' fullservice restaurants earn a **median of \$28.48/hour**.
- This is \$1.50 above the national median – which shows that waitstaff at fullservice restaurants earn a **median of \$27.00 an hour**, with the highest paid group making \$41.50 an hour and the lowest, \$19.00 an hour.

### **CONSUMER ATTITUDES ON TIPPING**

*\*See Regional Talking Points for State Data*

- In a National Restaurant Association survey, when asked if they would like to have a flat check where a service charge is automatically added to support hourly wages, 75% of consumers in Illinois said no, they want the tipping structure in restaurants to remain as it is now.