

RESTAURANT

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April 2023

THE IMPACT OF INITIATIVE 82

SURVEY OF RESTAURANTS ON THE IMPACT OF TIP CREDIT ELIMINATION IN THE DISTRICT OF COLUMBIA



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Executive Summary

Initiative 82, also known as the “District of Columbia Tip Credit Elimination Act of 2022,” was passed in November 2022 and will go into effect beginning May 1, 2023. Initiative 82 will eliminate the tip credit by increasing the tipped minimum wage every year until 2027. Once finalized, the tipped minimum wage will match the standard minimum wage.

To better understand the impact of increasing the minimum wage for tipped workers and eliminating the tip credit for D.C.’s restaurants, a survey of 105 restaurant operators who employ workers who earn tips was conducted in April 2023.

Key Findings

- A strong majority of operators (86%) think the tipped minimum wage increase to \$8 by July 2023 will have a negative impact on their operation(s).
- As a result of the increases in 2023 and through 2027, a majority of restaurants say they will be forced to raise menu prices (79% by 2023; 80% by 2027), reduce staff or consolidate positions (63% by 2023; 72% by 2027) and reduce employee hours (62% by 2023; 70% by 2027).
- Some restaurants indicated they will take additional measures to offset tipped minimum wage increases by 2027, including:
 - Seventy percent said they will introduce automatic service charges to customers' bills,
 - Forty-six percent said they would introduce other automatic fees for customers (i.e. "Fair Wage" fee),
 - Forty-six percent said they would open any future locations in surrounding jurisdictions, such as Maryland or Virginia,
 - Thirty-eight percent said they would substitute automation or self-service technology for employee tasks,
 - Twenty-five percent said they would change their restaurants' service model to include more quick service or counter service,
 - Twenty-two percent said they would adopt a no-tipping required policy, and
 - Thirty-one percent said they would have to close one or more locations.
- Eighty-five percent of restaurant operators believe increases to the tipped minimum wage will force them to decrease the number of tipped workers in their restaurants by 2027.
- Ninety-two percent say prices will increase in response to the tipped minimum wage increase to \$8 per hour by July 2023, with 43% saying prices will "significantly increase."
- However, 98 percent operators believe that raising menu prices will adversely affect customer foot traffic.
- Three-fourths (74%) think it will limit or reduce raises for kitchen and other non-tipped staff (somewhat likely, 19%; very likely, 55%).

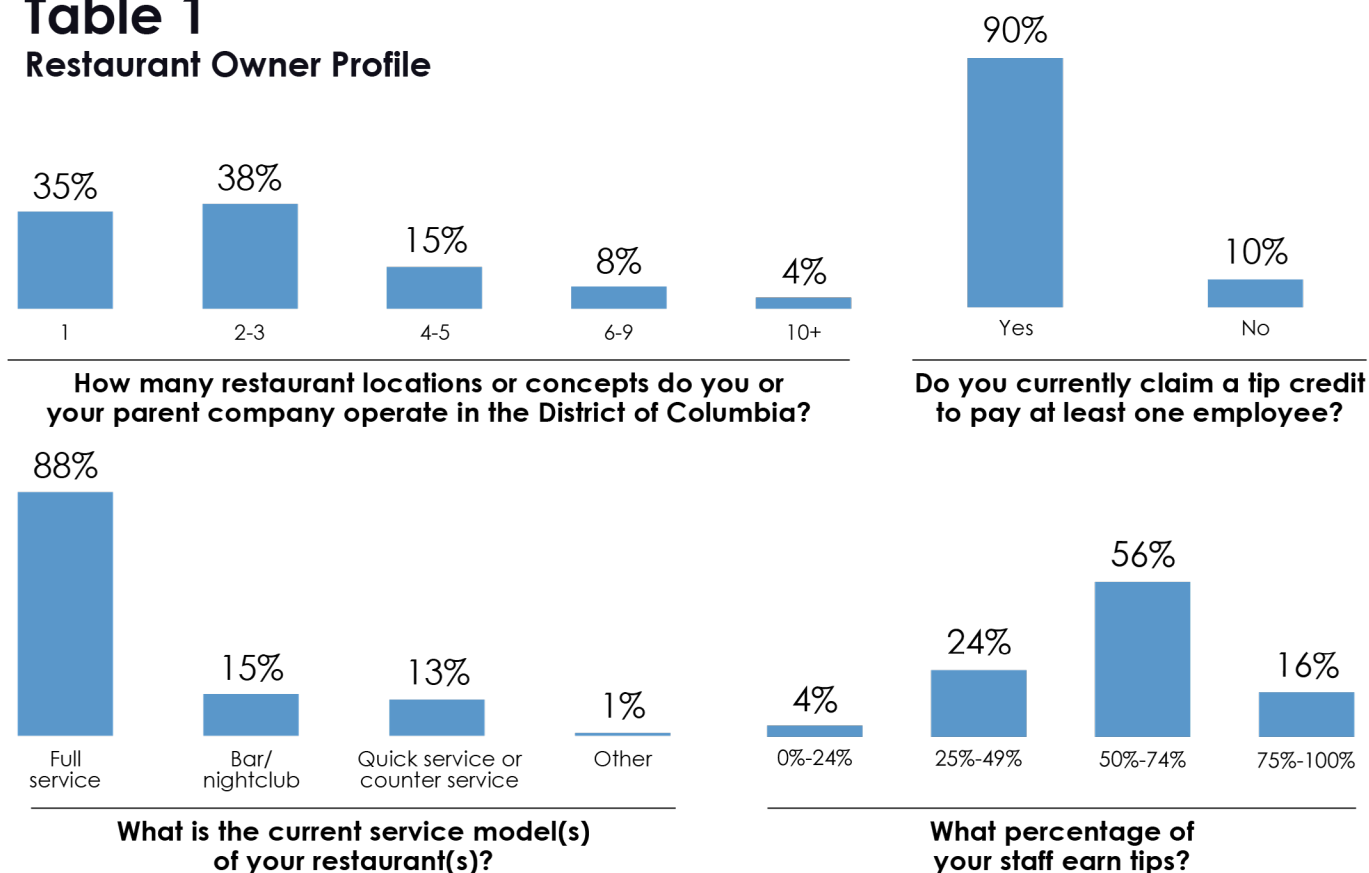
A Survey of D.C. Restaurant Owners

An online survey of 105 restaurant operators in the District of Columbia was conducted in April 2023.¹

CorCom, Inc. distributed the survey via text and email to a list composed of nightclub, restaurant and bar alcoholic beverage license contacts operating in the District of Columbia.

Table 1 provides a summary of the participants – all of whom employ workers who earn tips. Respondents operate a range of restaurants in the District of Columbia, with one-third (35%) operating one restaurant, while 38 percent operate two to three and 27 percent operate four or more restaurant locations or concepts. The majority operate full-service restaurants (88%), while 15 percent operate a bar or nightclub and 13 percent operate quick or counter service restaurants. The majority (90%) also claim a tip credit to pay at least one or more employees (meaning those employees earn part of their wages through customer tips). Three-fourths (72%) have half or more of their employees earning tips.

Table 1
Restaurant Owner Profile



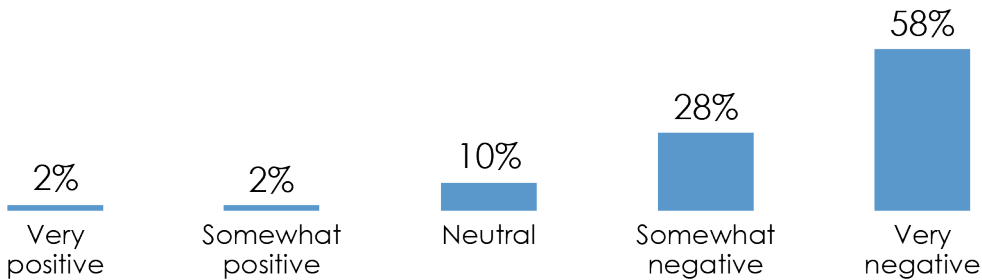
¹Nicole Bruno, Hannah McCollum and Sabrina Amann-Ross also assisted with this study.

Overall Impact of D.C. Tipped Wage Changes on Restaurants

Table 2 shows that a strong majority (86%) believe the tipped minimum wage increase to \$8 by July 2023 will have a negative impact on their operations, with 58 percent saying the impact will be “very negative” and 28 percent saying “somewhat negative.” All respondents (100%) who operate six or more restaurants in the D.C. area think the impact will be negative.

Table 2
Impact of Raising the Tipped Minimum Wage to \$8 by July 2023

What impact do you anticipate the tipped minimum wage increase up to \$8 by July will have on your operations?



Mitigation Strategies to Offset Impacts of Tipped Minimum Wage Increases

Restaurant operators are planning to take a number of steps to offset the financial impacts of the tipped minimum wage increase. Table 3 lists the steps restaurant operators will take in 2023 when the tipped minimum wage is increased to \$8 per hour and in 2027 when it is increased to \$16.10 or higher, depending upon the current minimum wage and adjustments based on inflation.

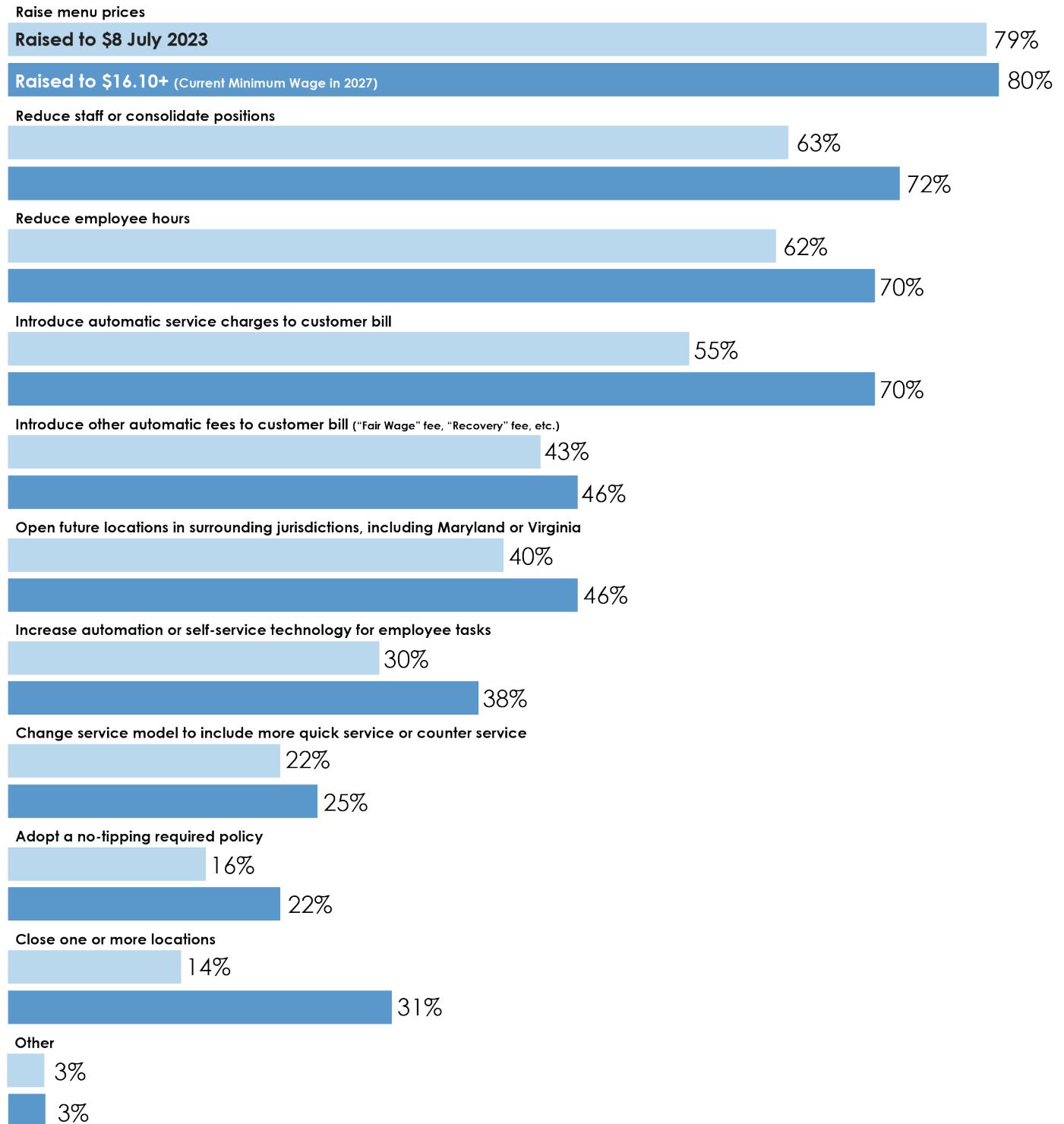
By July 2023, a majority of restaurants say they will be forced to raise menu prices (79%), reduce staff or consolidate positions (63%) and reduce employee hours (62%). By 2027, even more restaurants will take these steps (raise menu prices, 80%; reduce staff or consolidate positions, 72%; reduce employee hours, 70%). Restaurants with one location are most likely to take these steps, with 86 percent indicating they will be forced to raise menu prices, 76 percent indicating they will be forced to reduce staff or consolidate positions, and 76 percent indicating they will have to reduce employees' scheduled hours. Interestingly, many of the restaurants who are not currently claiming a tip credit are also planning menu price increases (67%, versus 81% for those who claim a tip credit), reducing staff or consolidating positions (44%, versus 65% who claim a tip credit) and reducing employee hours (56%, versus 63% who claim a tip credit).

A sizable number of restaurant operators plan to take even more measures by July 2023, including introducing automatic service charges to customers' bills (55%), introducing other automatic fees ("Fair Wage" fee, "Recovery" fee, etc.) (43%), opening future locations in surrounding jurisdictions, substituting automation or self-service technology for employee tasks (30%), changing their service model to include more quick service or counter service (22%), adopting a no-tipping required policy (16%) and closing one or more locations (14%). More restaurant operators who operate four or more restaurants say they are planning to switch their service model to quick service or counter service (38%) and adopt a no-tipping required policy (27%).

When minimum wages for tipped employees are raised to \$16.10+, even more restaurants plan on taking more measures, including introducing automatic service charges to customer bill (70%, +15 by 2027), introducing other automatic fees to customer bill ("Fair Wage" fee, "Recovery" fee, etc.) (46%, +3 by 2027), opening future locations in surrounding jurisdictions, including Maryland or Virginia (46%, +6 by 2027), increasing automation or self-service technology for employee tasks (38%, +8 by 2027), changing service model to include more quick service or counter service (25%, +3 by 2027), adopting a no-tipping required policy (22%, +6 by 2027) and closing one or more locations (31%, +17 by 2027).

Table 3

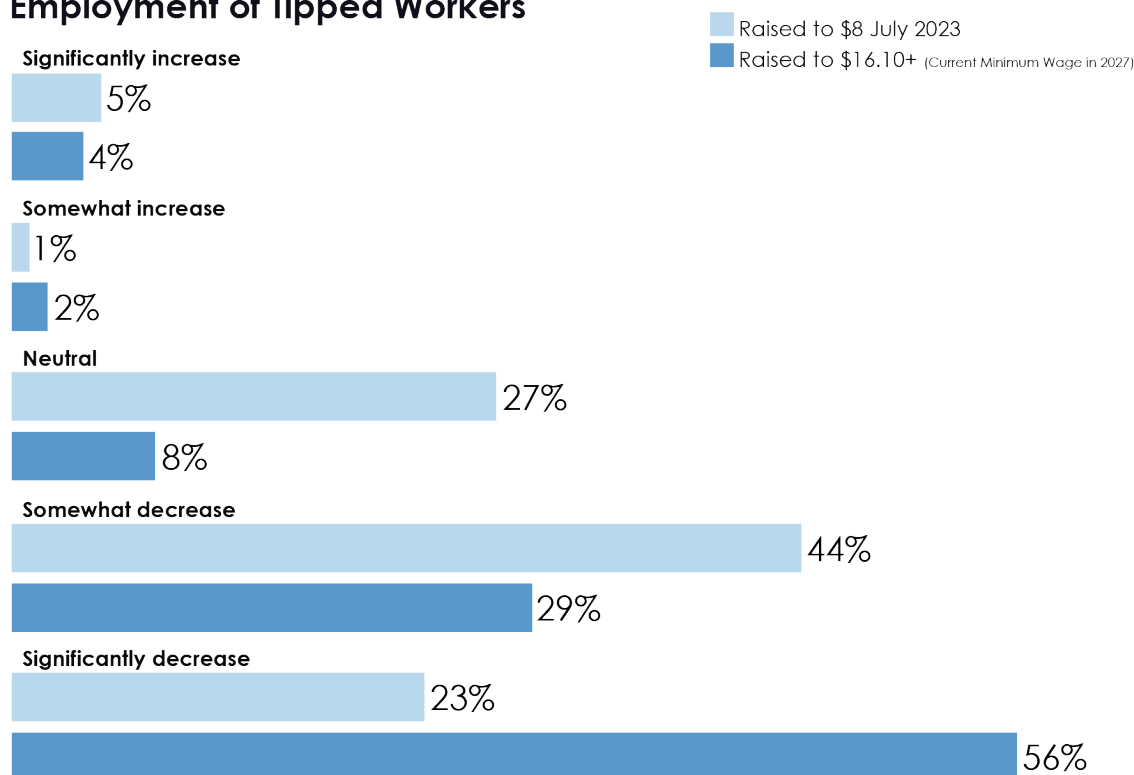
Restaurant Operators' Steps to Offset Financial Impacts of Tipped Minimum Wage Increase



Future Employment of Tipped Workers

Restaurant operators believe increases to the tipped minimum wage will have an adverse impact on the employment of tipped workers. Table 4 shows the likely impact on the employment of tipped workers when the minimum wage is raised to \$8 in July 2023 and \$16.10 or more in 2027. In July 2023, 67 percent say they will be forced to decrease the number of employees in their restaurant(s), with 23 percent saying they plan to make “significant decreases.” In 2027, more restaurants plan to decrease the number of tipped employees (85%, +18 by 2027). The percentage of restaurants planning to “significantly decrease” their employment of tipped staff more than doubles in 2027 (56%, +33 by 2027).

Table 4
Impact of Tipped Minimum Wage on Restaurants' Employment of Tipped Workers



Additional Impacts of Eliminating Tip Credits

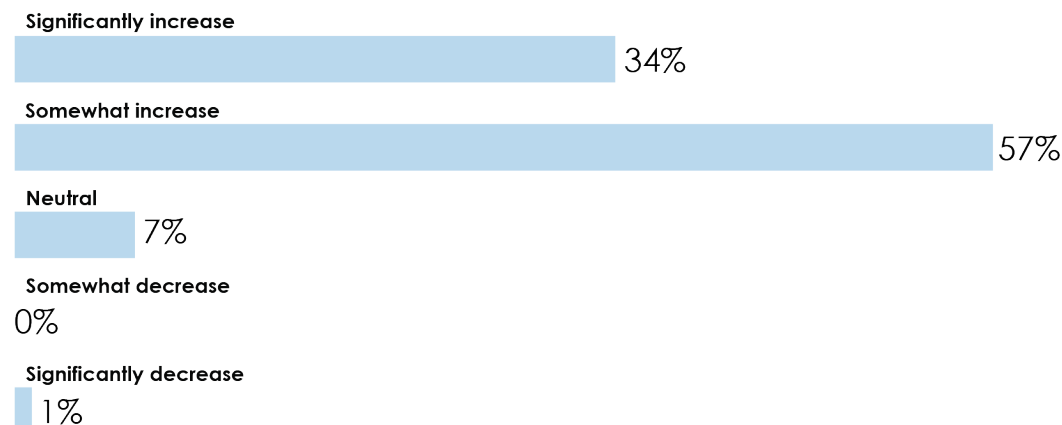
Table 5 presents additional impacts of raising the tipped minimum wage. When asked more specifically about impact of increasing the minimum wage for tipped employees to \$8 in July 2023 on menu prices, 92 percent say menu prices will increase with 34 percent saying they will “significantly increase.”

Unfortunately for D.C. restaurants, 98 percent of operators think that raising menu prices will adversely affect customer foot traffic (somewhat negatively, 43%; very negatively, 58%).

Restaurant operators also think that once the tip credit is eliminated completely and the tipped minimum wage reaches \$16.10 or higher by 2027, this will have adverse effects on kitchen and other non-tipped staff. Three-fourths (74%) think it will limit or reduce raises for kitchen and other non-tipped staff (somewhat likely, 19%; very likely, 55%). Restaurants with only one location are likely to be hardest hit, with 72% responding non-tipped staff raises would be “very likely” limited as a result of the new minimum wage constraints.

Table 5

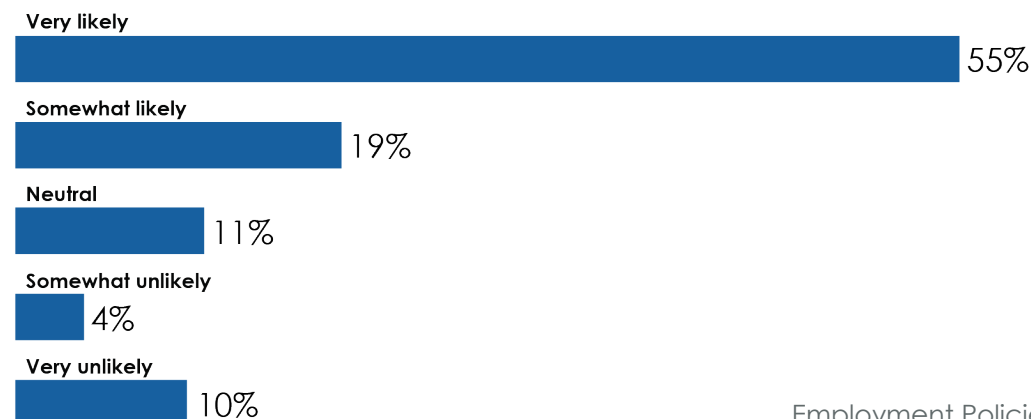
How will the tipped minimum wage increase up to \$8 per hour in 2023 affect your restaurant's menu prices?



To your knowledge, how do you believe raising menu prices would affect customer foot traffic in your restaurant(s)?



To your knowledge, how likely is it that complete tip credit elimination and a \$16.10+ required tipped minimum wage will limit or reduce raises for kitchen and other non-tipped staff?



D.C. Tipped Wage Restaurant Owner Survey

1. How many restaurant locations or concepts do you or your parent company operate in the District of Columbia?

- 1
- 2-3
- 4-5
- 6-9
- 10-25
- 26-50
- 50+

2. What is the current service model(s) of your restaurant(s)? Select all that apply.

- Quick service or counter service
- Full service
- Bar/nightclub
- Other

3. Do you employ workers who earn tips?

- Yes
- No (terminate)

4. Do you currently claim a tip credit to pay at least one employee (i.e., employee makes part of their wages through customer tips)?

- Yes
- No

5. What percentage of your staff earn tips?

- 0%-24%
- 25%-49%
- 50%-74%
- 75%-100%

Impacts of D.C. Tipped Wage Changes – 2023

Washington, D.C.'s Initiative 82 will phase out the city's tip credit that allows restaurants to count tips toward the regular minimum wage rate, currently \$16.10 per hour but increasing with inflation every July.

In 2023, the required base wage for tipped employees will go up twice, to \$6 per hour on May 1 and \$8 per hour on July 1.

6. What impact do you anticipate the tipped minimum wage increase up to \$8 by July will have on your operations?

- Very positive
- Somewhat positive
- Neutral
- Somewhat negative
- Very negative

7. What steps have you taken or are you likely to take to offset the financial impacts of the tipped minimum wage increase up to \$8 per hour in 2023? Select all that apply.

- Reduce employee hours
- Reduce staff or consolidate positions
- Raise menu prices
- Close one or more locations
- Open future locations in surrounding jurisdictions, including Maryland or Virginia
- Increase automation or self-service technology for employee tasks
- Introduce automatic service charges to customer bill
- Introduce other automatic fees to customer bill ("Fair Wage" fee, "Recovery" fee, etc.)
- Change service model to include more quick service or counter service
- Adopt a no-tipping required policy
- Other : _____

8. How will the tipped minimum wage increase up to \$8 per hour in 2023 affect your restaurant's employment of tipped workers?

- Significantly increase
- Somewhat increase
- Neutral
- Somewhat decrease
- Significantly decrease

9. How will the tipped minimum wage increase up to \$8 per hour in 2023 affect your restaurant's menu prices?

- Significantly increase
- Somewhat increase
- Neutral
- Somewhat decrease
- Significantly decrease

Impacts of D.C. Tipped Wage Changes – 2024 and Beyond

The tipped minimum wage will increase every July until 2027 when it will be tied to the regular minimum wage rate.

10. What steps are you likely to take to offset the impacts of complete tip credit elimination and a \$16.10+ required tipped minimum wage by 2027? Select all that apply.

- Reduce employee hours
- Reduce staff or consolidate positions
- Raise menu prices
- Close one or more locations
- Open future locations in surrounding jurisdictions, including Maryland or Virginia
- Increase automation or self-service technology for employee tasks
- Introduce automatic service charges to customer bill
- Introduce other automatic fees to customer bill (“Fair Wage” fee, “Recovery” fee, etc.)
- Change service model to include more quick service or counter service
- Adopt a no-tipping required policy
- Other: _____

11. How will complete tip credit elimination and a \$16.10+ required tipped minimum wage by 2027 affect your restaurant’s employment of tipped workers?

- Significantly increase
- Somewhat increase
- Neutral
- Somewhat decrease
- Significantly decrease

12. To your knowledge, how do you believe raising menu prices would affect customer foot traffic in your restaurant(s)?

- Very positively
- Somewhat positively
- No impact
- Somewhat negatively
- Very negatively

13. To your knowledge, how likely is it that complete tip credit elimination and a \$16.10+ required tipped minimum wage will limit or reduce raises for kitchen and other non-tipped staff?

- Very likely
- Somewhat likely
- Neutral
- Somewhat unlikely
- Very unlikely



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Employment Policies

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