

March 19, 2025

Illinois House of Representatives
Executive Committee
Room 118 Capitol Building
Springfield, IL

Dear Honorable Members of the Executive Committee:

The proposal to eliminate Illinois' tip credit in House Bill 2982 has no track record of helping tipped workers. In fact, everywhere tip credit elimination has been tried, it has failed workers.

The consequences of tip credit elimination have been studied over decades, and economists have found the policy slashes jobs and scheduled hours, reduces tips and take-home pay for tipped workers, and closes restaurants.

- A National Bureau of Economic Research study finds every \$1 increase in the tipped wage causes a 6.1% decrease in restaurant employment.¹
- A Cornell University study finds as state tipped wages are forced up, tip percentages left by customers fall.² States that do not allow tip credits have some of the lowest tipping percentages in the country.³
- A U.S. Census Bureau study found a 5 to 6 percent increase in the tipped minimum wage results in a proportional decrease in tip income.⁴ The author concludes these results “show that servers do not ultimately make more in total hourly wage.”
- A National Bureau of Economic Research study finds every \$1 increase in the tipped wage causes a 5.6% total earnings loss for tipped employees.⁵ The median tipped worker in Illinois already earns \$28 per hour – many earn much more.⁶ Eliminating the current system would drive their earnings down.
- A Harvard Business School study finds every \$1 increase in the mandated wage for tipped restaurant workers increases the probability of restaurant closures by 14 percent.⁷

Eliminating the tip credit according to H.B. 2982 means Illinois' mandated base wage for tipped workers will spike up by 66 percent in just a few years. That will leave operators, and consequently their staff, forced to make the same hard decisions. That's why 90% of tipped workers nationwide – including those in Illinois – oppose changes to the current tip credit system.⁸

The negative consequences are unfolding in Washington, D.C., which began eliminating its tip credit almost two years ago:

- **If restaurant operators can't raise their prices enough to cover the increases, many will be forced to turn to automatic service charges.** Currently, more than 300 D.C. restaurants have adopted service fees.⁹

- **If that doesn't work, restaurants will be forced to downsize staff**, which will limit the amount of foot traffic they can reasonably accommodate.
 - Federal data shows D.C. lost thousands of restaurant jobs in the year after Initiative 82 began. This occurred during a period of employment growth in the city's other industries, and represents a 19 percentage point drop for restaurants from the previous year before the law went into place.¹⁰
 - This estimate may even be on the low side: The local restaurant association surveyed its membership and found 70% have either cut hours, laid off staff or stopped hiring.¹¹
- **The Employment Policies Institute surveyed local D.C. restaurants shortly after its tip credit elimination policy went into effect, and found 77 percent would be forced to close or move** to Maryland or Virginia by 2027.¹² In fact, D.C. saw its highest number of restaurant closures in 2024 since the pandemic – and the rate of closures to openings has grown.¹³
- **Fewer hours and fewer customers mean fewer tips for hard-working servers and bartenders.**
 - Newly-released payroll platform data shows in fact, states that have fully-eliminated tip credits are in the bottom half of states nationally for their low average tipping percentages.¹⁴ California, which eliminated its tip credit decades ago, is the lowest in the nation, with an average tipping percentage that is 10 percent lower than the national average of 19.8%. That's lower than all other states that maintain a robust tip credit system.

The situation got so bad in D.C., servers and bartenders flooded a six-hour hearing before the D.C. City Council held in January. Workers told City Council members that under the city's tip credit elimination law, their tips had gone down, earnings went down, and they had experienced staffing cuts.¹⁵ As a server told the Council: "Since [tip credit elimination] has begun to be implemented...I'm now making up to 50% less." Many called for the law to be halted before the city fully eliminates its tip credit for good.

Chicago followed D.C.'s example roughly a year later, and early data indicates negative impacts on restaurant jobs: the latest federal data surveying 95% of employers through September 2024 found **Chicago's metropolitan area lost over 5,000 restaurant jobs in just three months** since the city's tip credit elimination policy began to take effect in July 2024.¹⁶

- The Chicago-area job loss, which represents 3.3% of its full-service restaurant workforce, is more than **seven times greater than losses for full-service restaurants throughout the rest of Illinois** (which lost 0.45% of jobs in the same three-month period).¹⁷
- Full-service restaurant job losses since tip credit elimination began have also **significantly outpaced any job losses for all industries in Chicago** (0.52% employment loss) during the same three-month period.¹⁸

Chicago has also seen a rise in automatic service charges as restaurants are forced to adapt to afford higher wage bills. Local diners have tracked over 150 restaurants in Chicago to date that have added these fees.¹⁹

This is an economic disaster – for employees and operators – that doesn’t need to be exported to the entire state of Illinois. I urge the committee to consider how moving forward with policies that endanger the tip credit would bring job and earnings losses for Illinois’ tipped workers, and how it could wreak havoc on the state’s dining scene.

Sincerely,

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¹ Neumark, D., & Yen, M.; National Bureau of Economic Research:

https://www.nber.org/system/files/working_papers/w29213/revisions/w29213.rev1.pdf

² Lynn, M. *Compensation & Benefits Review*: <https://journals.sagepub.com/doi/abs/10.1177/0886368720908959>

³ Toast News: <https://pos.toasttab.com/news/q4-2022-restaurant-trends-report-valentines-super-bowl-tipping-data>

⁴ Jones, Maggie; U.S. Census Bureau: <https://www.census.gov/content/dam/Census/library/working-papers/2016/adrm/carra-wp-2016-03.pdf>

⁵ Neumark, D., & Yen, M.; National Bureau of Economic Research:

https://www.nber.org/system/files/working_papers/w29213/revisions/w29213.rev1.pdf

⁶ Illinois Restaurant Association: <https://www.illinoisrestaurants.org/page/ProtectChicagosTips>

⁷ Luca, D. L., & Luca, M.; National Bureau of Economic Research:

https://www.nber.org/system/files/working_papers/w25806/w25806.pdf

⁸ Employment Policies Institute: <https://minimumwage.com/2024/07/survey-tipped-employees-nationwide-prefer-keeping-the-tip-credit/>

⁹ Restaurant Service Charge Tracker, r/WashingtonDC Reddit:

https://www.reddit.com/r/washingtondc/comments/10547wd/restaurant_service_charge_tracker/?utm_source=share&utm_medium=ios_app&utm_name=iossm

¹⁰ U.S. Bureau of Labor Statistics and the Federal Reserve Bank of St. Louis:

<https://fred.stlouisfed.org/series/SMU11000007072251101SA>

¹¹ Restaurant Association of Metropolitan Washington: <https://www.ramw.org/articles/blog/dc-restaurant-workers-hit-10-straight-months-job-losses-closures-reach-two-year-high>

¹² Employment Policies Institute: <https://epionline.org/app/uploads/2023/04/Impact-of-Eliminating-Tip-Credit-for-DC-4-25.pdf>

¹³ Restaurant Association of Metropolitan Washington: <https://www.ramw.org/articles/blog/dc-restaurant-workers-hit-10-straight-months-job-losses-closures-reach-two-year-high>

¹⁴ Employment Policies Institute: <https://minimumwage.com/2025/01/new-data-shows-tips-are-lowest-and-declining-in-one-flat-wage-states/>

¹⁵ D.C. City Council Committee on Executive Administration and Labor Roundtable on Tipped Wages in the District of Columbia: <https://lms.dccouncil.gov/Hearings/hearings/631>

¹⁶ U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages, NAICS 722511, Chicago-Naperville-Elgin metropolitan area: https://data.bls.gov/cew/apps/table_maker/v4/table_maker.htm#type=17&from=2023&to=2024&qtr=1&own=5&ind=722511&area=C1698&supp=1

¹⁷ U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages, NAICS 722511, Illinois: https://data.bls.gov/cew/apps/table_maker/v4/table_maker.htm#type=17&from=2023&to=2024&qtr=1&own=5&ind=722511&area=17000&supp=1

¹⁸ U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages, All industries, Chicago-Naperville-Elgin metropolitan area: https://data.bls.gov/cew/apps/table_maker/v4/table_maker.htm#type=17&from=2023&to=2024&qtr=1&own=5&ind=10&area=C1698&supp=1

¹⁹ *Eater Chicago*: <https://chicago.eater.com/2023/8/9/23826538/chicago-reddit-restaurant-service-fee-spreadsheet-google-doc-minimum-wage-pandemic>