



# Labor Costs in Tipped Establishments

When a discussion takes place surrounding tip credit, undoubtedly the question is raised concerning servers that only make \$1-2 an hour in tips. It is important to highlight that under a tip credit, the establishment can only count what is reported by the server to the employer, but more importantly a restaurant can not operate if a server makes less than \$3 an hour in tips.

Every restaurant is different but there is a general rule in the industry. The average restaurant operates on percentages and the industry standard is 33% of your dollar is labor costs, 33% is food costs, and all other expenses: rent, gas, electric water sewer, insurance licenses, fees, music and profit come out of the remaining 33%. The information provided illustrates how much food sales must be generated by a server in order for an employer to pay the employee minimum wage.

Restaurant consultants will advise owners if the big two costs (labor and food) increase to over 70%, it will be difficult keeping the doors open. The assumption is the average restaurant operates at a labor cost of between 30-35%. If that is true, it is very unlikely a server would ever make less than \$3.50 an hour in tip income.

Below is an example that illustrates what a server needs to sell in order to cover minimum wage. The numbers are based on a server making minimum wage only, this does not factor in the labor costs of managers, cooks, hostesses and administrative personnel.

This table is intended to give an idea of what the labor costs are in the industry. Also, it clearly demonstrates that by forcing the restaurant owner to pay the full minimum wage to a server, the server will make \$10 an hour before the owner begins paying any other employee in the establishment.

The first column is the Minimum wage; the second is a labor cost percentage, third the minimum amount of food sales needed to cover the cost of minimum wage, what a 15% tip would be on that food sale and lastly the combination of the minimum wage and that specific tip.

Restaurant	M.Wage	Labor Cost	Minimum Sales	Tip at 15%	Total Wage for Server
Place A	\$7.25	35%	\$20.70	\$3.10	\$10.35
Place B	\$7.25	30%	\$24.15	\$3.60	\$10.85

Once again this only covers the wage for the server; there is additional staff within the establishment that contributes to food preparation. Let's be simplistic and say there is a restaurant with just a server making minimum wage and a cook being paid \$10.00 an hour. Carry the above example out with a server at \$7.25 and a cook at \$10 and you will see

Restaurant	Wage	Labor Cost	Minimum Sales	Tip at 15%	Total Wage
Place A	\$17.25	35%	\$49.25	\$7.35	\$14.60
Place B	\$17.25	30%	\$57.50	\$8.60	\$15.85

*The table above shows the costs associated with having table service in a restaurant but also the tremendous opportunity for income a server has in this establishment. There are servers that make above \$14.00 an hour but they are not generating the sales that will allow the employer to keep them employed.*

Every other industry in Oregon is allowed to use a wage credit today. Why should your local restaurant be forced to be different!

**653.035 Deducting value of lodging, meals and other benefits furnished by employer; treatment of commissions and tips.** (1) Employers may deduct from the minimum wage to be paid employees under ORS 653.025, 653.030 or 653.261, the fair market value of lodging, meals or other facilities or services furnished by the employer for the private benefit of the employee.

(2) Employers may include commission payments to employees as part of the applicable minimum wage for any pay period in which the combined wage and commission earnings of the employee will comply with ORS 653.010 to 653.261. In any pay period where the combined wage and commission payments to the employee do not add up to the applicable minimum wage under ORS 653.010 to 653.261, the employer shall pay the minimum rate as prescribed in ORS 653.010 to 653.261.

(3) Employers, including employers regulated under the Federal Fair Labor Standards Act, may not include any amount received by employees as tips in determining the amount of the minimum wage required to be paid by ORS 653.010 to 653.261. [1967 c.596 §86, 7; 1977 c.238 §3]

Oregon law expressly excludes tips, **Why?**

## Why A Tip Wage?

The ORA firmly believes that by having a law that prohibits the use of commissions in the calculation of wages solely for the restaurant industry is hindering growth within the industry and discriminating against an entire trade.

The restaurant industry in Oregon provides the opportunity for a high paying job with little or no experience required. It is vital that a tip wage is established within Oregon. Without it, the restaurant industry suffers and job opportunities disappear.

With a tip wage, employers are able to increase available wage dollars by increasing the amount of "table turns", which can mean more tips for servers.

Oregon law is behind the times compared to the rest of the nation. It is important that the Association and the entire restaurant industry work together to bring about change in legislation and relief for our business.

