

HAWAII'S TIP CREDIT CAUSES CONCERN

Hawaii's \$16 minimum wage piles on to a restaurant industry already dealing with rising costs, a turbulent tourism industry and tariffs.

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The increase in the state's minimum wage that took effect Jan. 1 was intended to help restaurant workers, but many industry leaders fear it will have the opposite effect and believe it will actually harm Hawaii restaurants.

The 2022 law that boosted Hawaii's minimum wage to \$16 this year left unchanged the amount employers may deduct for tipped employees such as restaurant servers, a move by state lawmakers that may have detrimental impacts on local restaurants, say industry leaders, including Peter Merriman, who has spent four decades in Hawaii's restaurant industry as a cook, a chef, the owner of Merriman's Hawaii and a partner in Handcrafted Restaurants on four islands.

"They're actually hurting the people that don't get tips because there's only so much money that any restaurateur has to spend on

labor," Merriman said. "For every \$2 that you give to the guy who is earning tips, that's \$2 you cannot give to the guy that's washing dishes or even managing."

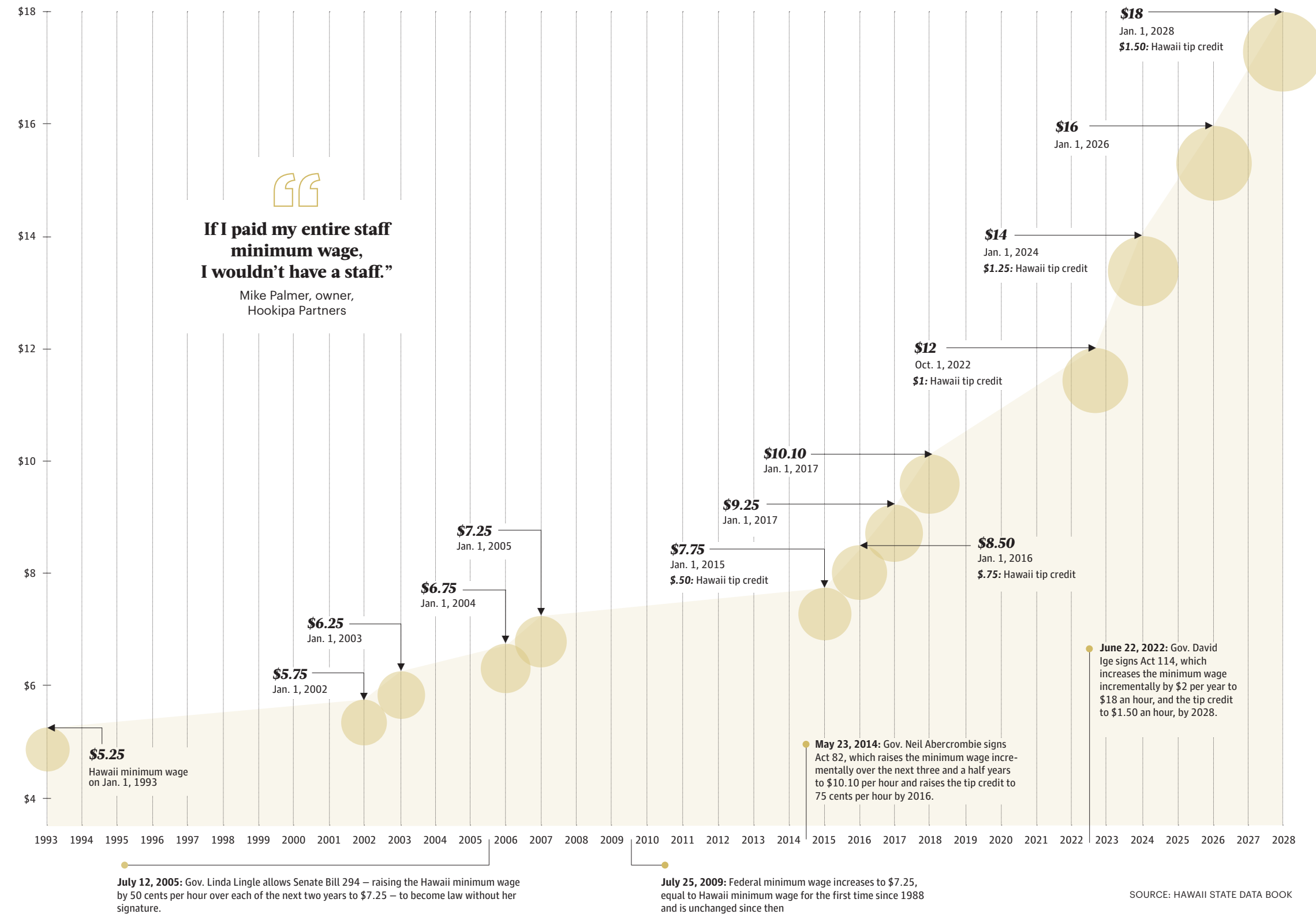
Hawaii's minimum wage stood at \$10.10 for four years until 2022, when it began going up by \$2 every other year. It reached \$16 an hour on Jan. 1 and is set to rise again in 2028 to \$18 an hour. The federal minimum wage has been unchanged at \$7.25 per hour since 2009.

Under certain conditions, employers may pay tipped employees below the applicable minimum wage by using what's referred to as a tip credit. While the minimum wage rose by \$2, the maximum tip credit remains at \$1.25. This means that tipped employees must be paid a \$14.75 minimum wage in addition to whatever they make in tips that hour, while the non-tipped employees are paid \$16 an hour.

The tip credit most directly applies to restaurant servers,

WAGE REVIEW

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Peter Merriman, owner of Merriman's Hawaii; partner in Handcrafted Restaurants



Victor Lim, owner and operator of McDonald's of Hawaii



Jo McGarry Curran, founder of MoJo - The Business of Food, a full-service restaurant consulting firm

who often make three times the minimum wage with tips and, in some cases, can earn upwards of \$100,000 as career servers at high-end restaurants, according to multiple Hawaii Restaurant Association members.

Merriman supports the minimum wage increase and believes the law was well-intended by most who supported it, but there were not enough conversations with industry leaders who understand the nuance of restaurants.

"I want my waiters to make \$100,000," Merriman said. "But I'd like my cooks and dishwashers also to make something relatively similar to that."

The federal law says an employer must pay a tipped worker at least \$2.13 per hour under the Fair Labor Standards Act. An employer can take an FLSA tip credit equal to the difference between the direct wage, or the cash wage it pays directly to the tipped employee and the federal minimum wage, which is currently \$7.25 per hour.

But Hawaii law supersedes federal law, meaning employers must pay at least the state minimum wage. That means servers in Hawaii get paid a minimum wage nearly seven times more than servers in some parts of the U.S.

"The timing couldn't be worse," said Victor Lim, owner and operator of McDonald's of Hawaii and an HRA member. Lim worries Hawaii will have a similar fate as California and see job cuts and restaurant closures.

'Give it to the kitchen'

Few people know the ins and outs of the restaurant business in Hawaii like Jo McGarry Curran. She has been in the food and beverage industry for more than 25 years in Hawaii. She is currently a vice president at the commercial real estate firm CBRE and the founder of MoJo - The Business of Food, one of the only full-service restaurant consulting firms in Hawaii.

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