

Opinion | Betsey Stevenson, Columnist

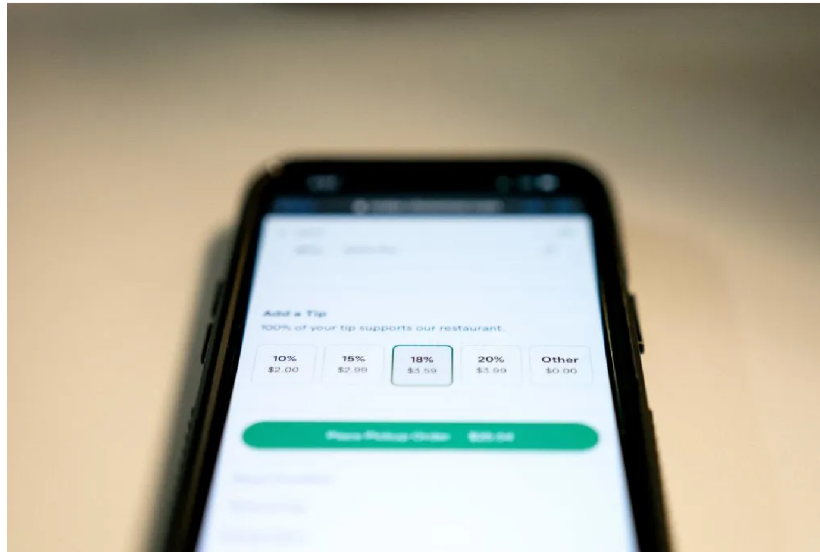
## Trump and Harris Should Focus on the Minimum Wage, Not Tips

If the presidential candidates want to reduce income anxiety for low-paid workers, they should work to raise wages.

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By **Betsey Stevenson**

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Eliminating taxes on tips is an idea with bipartisan appeal, with both [Donald Trump](#) and [Kamala Harris](#) embracing it. But that is not the same as saying it is a good idea – and if the motivation is to improve wages and reduce income anxiety for low-paid workers, there is a far better way to do it.

Advocates for the policy say it would alleviate a financial burden on service workers, who are among the lowest-paid in the country. In 2023, the median weekly wage for tipped occupations was just \$538, compared to \$1,000 for non-tipped workers. These lower wages explain why 37% of tipped workers, according to [the Yale Budget Lab](#), don't currently owe any federal income taxes at all. The higher-earning 63% would still benefit from a policy change.

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searching for loopholes and the IRS.

The second problem is tax fairness. Why exempt one industry – leisure and hospitality – from income taxes on tips? What about health-care workers? Or pre-school teachers? The Yale Budget Lab estimates that only 5% of workers in the bottom 25% of the earnings distribution earn tips. What about the other 95%?

The third issue is distortion. Eliminating taxes on income in the hospitality sector would require either raising taxes to make up that revenue, or adding to the deficit. The Center for a Responsible Federal Budget estimates that these proposals would increase the deficit by about \$200 billion over the next decade. A good tax system spreads taxes across a range of activities and people to reduce the distortions imposed by the system. It's not an ironclad rule; sometimes it makes sense, for example, to tax high-income people at a higher rate than low-income people. But taxing pre-school teachers instead of servers? Is this a valuable goal worth making a sacrifice for?

The origins for this silly idea can be traced to a decision made many decades ago that some employers can pay less than the minimum wage if tips can make up the difference. In the US, a restaurant worker can be paid just \$2.13 an hour, less than third of the federal minimum wage of \$7.25. Not only does this reliance on voluntary payments degrade the dignity of service work, it also makes it difficult for workers to pay taxes on their income: To help ensure compliance, the IRS asks employers to withhold taxes on estimated tips. Despite these efforts, it is clear that many tips remain unreported.

If tips were just a small, optional gesture of gratitude, then exempting them from income taxes might make sense. But tips in America are often not just a token of appreciation; they're part of the wages that workers depend on.

There is one way that eliminating taxes on tips could possibly be good policy: if it were used to liberate Americans from the tyranny of tipping culture.

Imagine a country that guaranteed a living wage for all workers, regardless of whether they received tips, and where small tips – perhaps up to \$1,000 a year – were tax-free for all workers. Such a policy could foster a fairer labor market and allow workers to accept small tokens of gratitude without worrying about the tax implications.

The IRS allows employers to give small gifts to employees as long as they aren't cash or cash-like. The argument is that if employers could give tax-free gifts of cash, they'd exploit the system. But it's not as if the IRS's ability to collect revenue would be undermined if your boss handed you a crisp \$100 bill for a year's good work. The problem arises when your boss decides to pay you almost exclusively in tips – which is exactly how the service sector now operates.

The purpose of policy should be to make compensation in the hospitality and leisure sectors more transparent and fair. That's why eliminating taxes on tips should be paired with a higher minimum wage and the elimination of the tipped minimum wage. It should also be limited to a small dollar amount or share of a worker's income – that's more important than capping the income levels of those who qualify, or the industry to which it applies.

The tax-free tip policy that both Trump and Harris are championing could push tipped workers further into a world of income uncertainty. Or it could help create more stable incomes by reducing tips to small, tax-free amounts given as a thank you, not as a wage. The devil, as always, will be in the details.

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