

Tip of the Iceberg: Tip Reporting at U.S. Restaurants, 2005–2018*

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*Disclaimer: The views expressed are those of the authors and not those of the U.S. Census Bureau. The Census Bureau has ensured appropriate access and use of confidential data and has reviewed these results for disclosure avoidance protection (project 7508369: CBDRB-FY22-CES008-001, CBDRB-FY22-CES020-005, CBDRB-FY23-CES020-003, CBDRB-FY23-CES020-006, CBDRB-FY24-0125, CBDRB-FY24-CES020-004).

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- ▶ Minimum-wage debate
 - ▶ In most states, tipped workers are subject to a (much) lower minimum wage
 - ▶ Washington DC and Chicago recently voted to eliminate the two-tier minimum wage

Data Sources: Full-Service (FS) single-unit restaurants, 2005–2018

1. Identify **full-service (FS) restaurants** in the Business Register (BR) and Longitudinal Business Database (LBD)
 - ▶ Use industry codes in the BR/LBD and responses to the Economic Census
 - ▶ Focus on single-unit restaurants
 - ▶ Employment, payroll, revenue, and tips from BR/LBD
2. Identify **workers at those restaurants** using W-2 records
 - ▶ Wage earnings and reported tip income from W-2
 - ▶ For subsets of workers matching to surveys:
 - American Community Survey (ACS): Occupation
 - Survey of Income and Program Participation (SIPP): Reported tips

Incentives

Why do people report tips to the IRS?

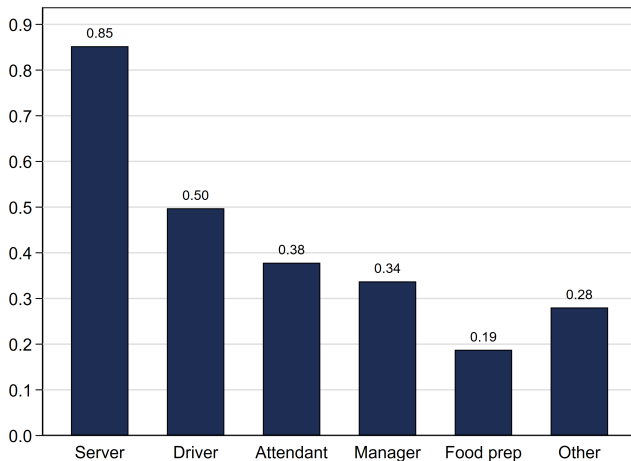
1. Fair Labor Standards Act (FLSA) and subminimum wages
 - ▶ Workers may be paid a subminimum wage only if tips cover the difference between the minimum and subminimum wages (“tip credit”)
 - Employer responsible for making worker whole
 - ▶ Current federal minimum wages: \$2.13 and \$7.25
 - tip credit: \$5.12, or 70.6% of minimum wage
 - Some states set higher minimum and/or subminimum wages
 - Some states require full minimum wage for all
2. IRS minimum for restaurant tip reporting
 - ▶ Restaurants with 10+ employees must report tips $\geq 8\%$ of revenue or face penalties
3. Third-party credit-card reporting to IRS starting in 2011

Takeaways

1. Most workers who earn tips report earning tips. . .
2. . . .but they do not report all of their tips
3. Surveys do not outperform administrative data
4. A significant share of restaurants have no reported tips, but these restaurants are very small
5. Tip reporting has increased over time

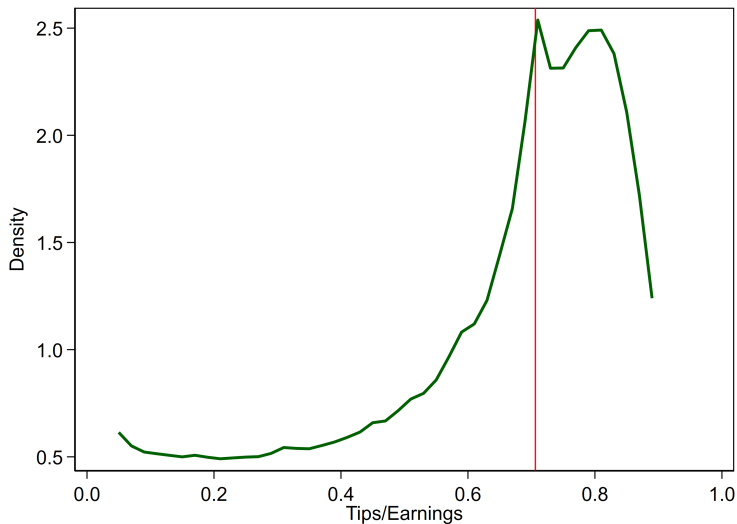
1. Most workers who earn tips report earning tips

Figure: Share of workers reporting tips, by ACS occupation



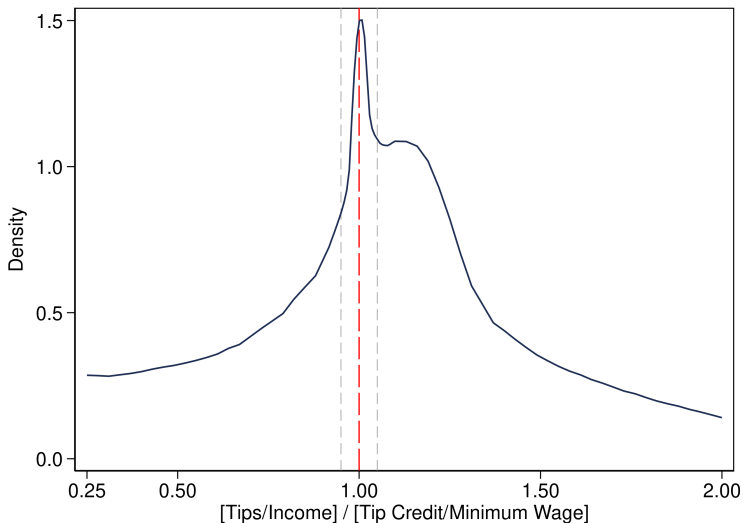
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Figure: Tips/earnings, states with federal tip credit, 2011–2018



2. ... but they do not report all of their tips

Figure: Normalized tips/earnings, all states with tip credit, all years



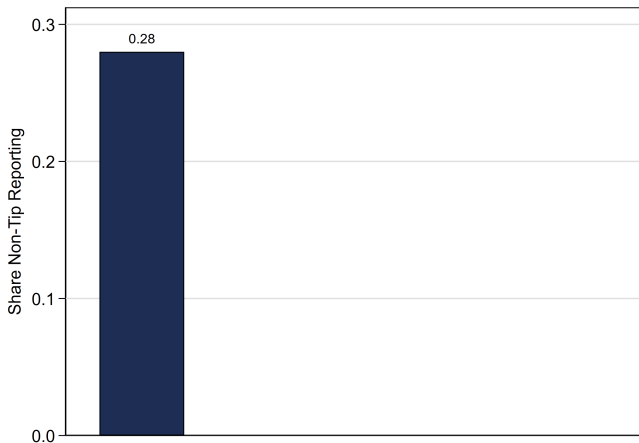
3. Surveys do not outperform administrative data

Figure: Tip Reporting in W-2 vs. SIPP, 2013–2016

		Form W-2 tips	
		No	Yes
SIPP Tips	No	0.60	0.18
	Yes	0.05	0.17

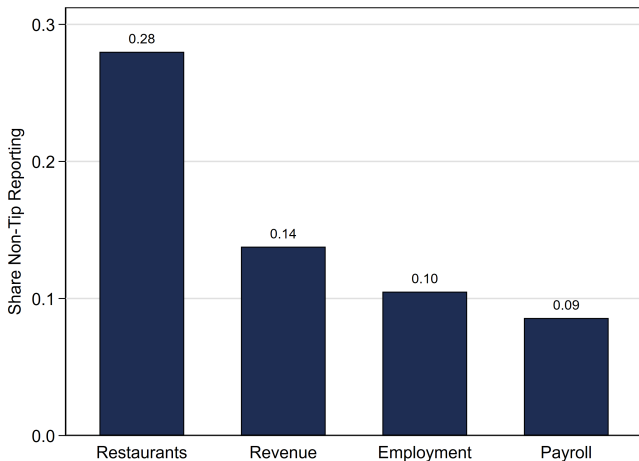
4. A significant share of restaurants have no reported tips

Figure: Share of activity at restaurants with no reported tips



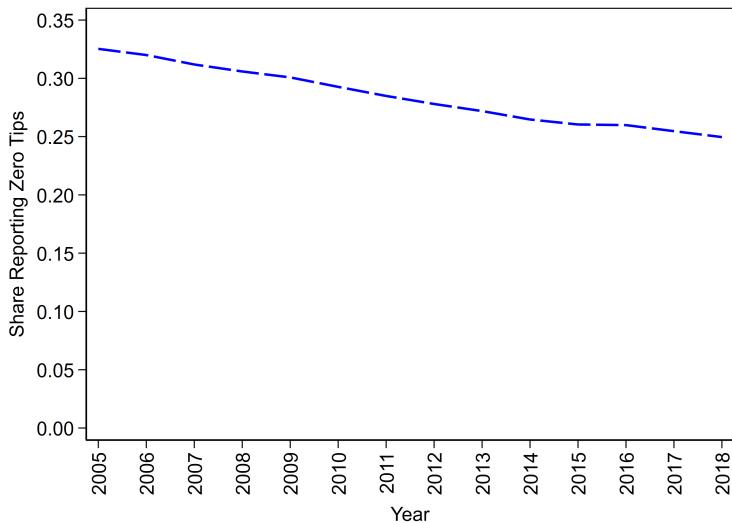
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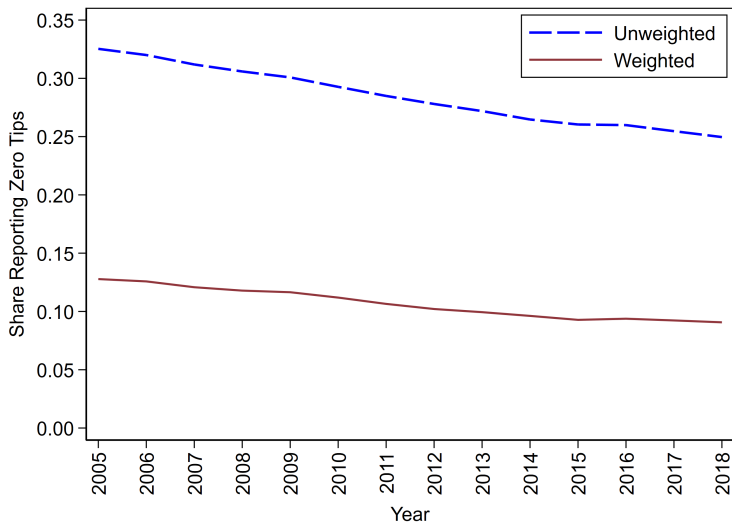
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Figure: Share of restaurants reporting zero tips



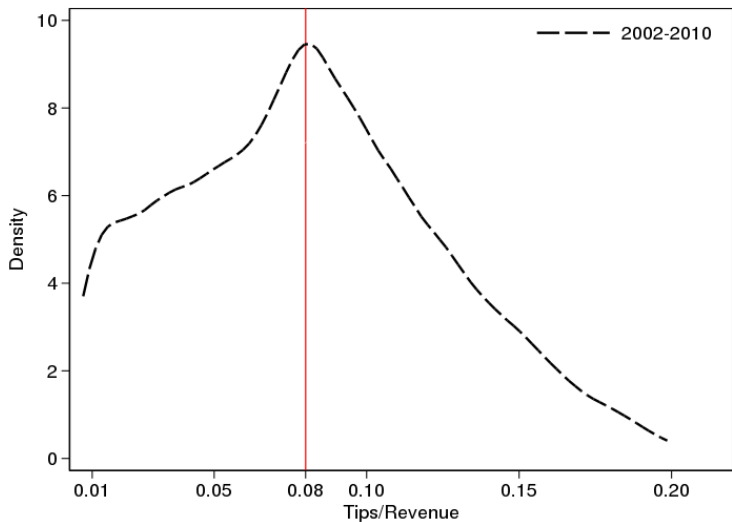
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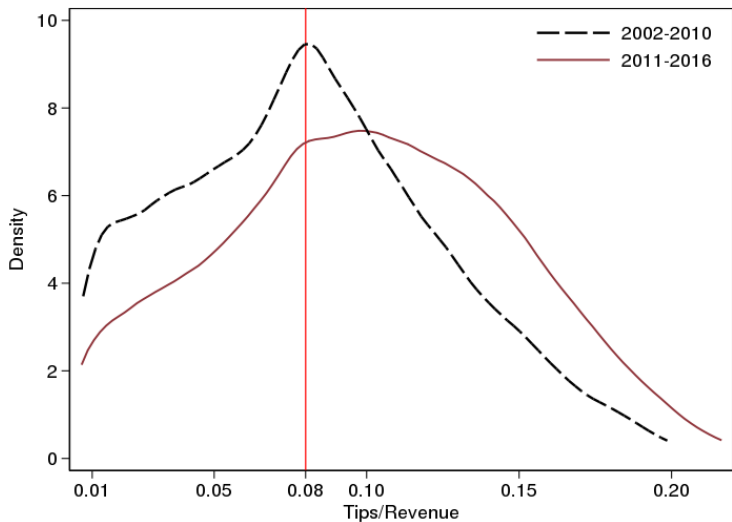
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 - ▶ Eliminating two-tier federal minimum wage
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- ▶ Proposed policies could change tip-reporting incentives
 - ▶ Eliminating two-tier federal minimum wage
 - ▶ Exempting tips from income taxes
- ▶ Need more and better data on tipping
 - ▶ Household surveys
 - ▶ Consumer surveys
 - ▶ Transactions data

Comments welcome!

Paper available at:

https://emekbasker.org/papers_public/Iceberg.pdf

