

# Chicago's City Council Passes the "One Fair Wage Ordinance" Eliminating the Tip Credit for Tipped Employees by July 1, 2028

## Labor & Employment Law Update

By Heather Bailey and Kevin Kleine on October 18, 2023

On Friday, October 6, 2023, Chicago's City Council passed the "One Fair Wage" Ordinance ("Ordinance"), which gradually phases out Chicago's "tip credit" over a five-year period until it is completely eliminated by June 30, 2028. At which point, all tipped employees working in the City of Chicago will earn the same hourly minimum wage rate as non-tipped employees. Meaning, on and after July 1, 2028, Chicago employers will no longer be able to credit an employee's earned tips and gratuities towards their hourly wage rate and will be required to pay all employees, including tipped employees, Chicago's minimum wage rate.

The City Council initially introduced legislation on July 19, 2023 to eliminate the city's tip credit over a two-year period, but after strong opposition, the City Council agreed to adopt a five-year gradual phase out plan to eliminate the tip credit by July 1, 2028.

The city's tip credit will gradually phase out according to the following plan under the Ordinance:

- 40% of the applicable minimum wage rate until July 1, 2024
- 32% of the applicable minimum wage rate on and after July 1, 2024
- 24% of the applicable minimum wage rate on and after July 1, 2025
- 16% of the applicable minimum wage rate on and after July 1, 2026
- 8% of the applicable minimum wage rate on and after July 1, 2027, until and including June 30, 2028.

Although the tip credit will not be completely eliminated until June 30, 2028, this new legislation will have an immediate and significant impact on the industries and businesses that rely on tipped employees like restaurants and bars. Employers are already taking steps to prepare for the impacts this legislation will have on their businesses.

While it remains uncertain what the actual consequences of this legislation's passing will be, consumers should expect to see blanket service charges and a gradual and steady increase in food and beverage prices at restaurants and bars in Chicago for the foreseeable future, which will undoubtedly result in fewer customers and patrons at these establishments. The financial impacts this legislation will have on Chicago's restaurants and bars due to increased labor costs, will almost certainly lead to layoffs and even restaurant and bar closures.

In short, Chicago's new One Fair Wage Ordinance is going to drastically change and reshape Chicago's hospitality industry, which was already strained from the impacts of the COVID-19 Pandemic.

More information can be found on our previous blog from August 2023.

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