

Note: published by The Virginian-Pilot Jan. 16, 2025:

[Column: Many questions, few answers about exempting tips from taxes – The Virginian-Pilot](#)

Jan. 13, 2025

Youngkin pitch to exempt tips from taxes could benefit some. A better option is raising the \$2.13 tipped minimum wage.

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Virginia Gov. Glenn Youngkin's [proposal](#) to exempt tipped income from state taxes – like President-elect Trump's on a national level – could help some low-wage workers. However, it also poses risks for others and raises complex issues that state legislators should examine.

Recent Republican tax-free tip proposals combine a traditional conservative instinct to cut taxes with the party's efforts to draw support from [working class voters](#). Converting election promises like this into law may well draw the GOP into debates over legislation that would help workers more broadly, such as raising the minimum wage across the board.

While keeping its tipped minimum wage of \$2.13 per hour the lowest allowed under federal law, Virginia raised its regular minimum wage from \$12 to \$12.41 on New Year's Day to adjust for the rising cost of living.

Exempting tips from taxes raises concerns about tax fairness, administrative complexity, and government revenue loss:

- The governor's plan would not be equitable in that tipped workers would pay lower taxes than salaried workers with the same income.
- To control tax evasion by higher-income salaried professionals, legislators need to specify which types of workers would not pay taxes on tips. Restricting eligibility to mitigate income shifting and tax loss means drawing lines likely to leave out some low-income workers.
- The policy change creates an incentive for employers to reduce tipped worker wages to a level nearer \$2.13. Employers could justify wage cuts by telling workers they are in effect "getting a raise" by the government making their tips tax-free.
- It would reduce state tax revenue and could reduce federal payroll tax revenue, which supports Social Security and Medicare.

Whether the state legislature decides to exempt tips or not, Virginia could raise its tipped minimum wage to a point much closer to the regular minimum level, which would mitigate tax revenue loss and help tipped workers in job environments where tips or business volume are low. Some workers receive generous tips and [prefer their income](#) in that form. Other tipped workers benefit from a [higher base salary](#). A slow shift at a restaurant can leave waiters with pay too low to afford a meal much less cover the cost of housing and other necessities.

For employers, the [complex federal rules](#) around minimum wages for tipped workers – which require paying more cash wages in hours when tips end up below the regular federal minimum – can be difficult to comply with. Many restaurants [fail to do so](#).

An alternative to exempting tips from taxes – and possible target for the legislature – could be setting the tipped minimum wage at least at half the amount of the regular minimum wage. [Some states](#) already do this. A few states already require employers to pay tipped workers the full minimum wage.

As low-income workers become a more important part of the Republican Party base, support for a higher minimum could grow on both sides of the aisle. Earlier this year, a group of Republican senators in Congress introduced [legislation](#) to raise the federal [minimum wage](#), thereby creating the possibility of negotiating differences with a [bill](#) introduced by Sen. [Bernie Sanders](#) (I-VT) and [30 Democratic co-sponsors](#).

In a [Meet the Press interview](#) just after the election, Trump said he would consider raising the regular federal minimum wage of \$7.25 an hour which is very “low,” but would want to speak to governors first. He explained that it is difficult to set a national minimum wage because of large differences in the cost of living and other market factors between higher-income states like New York and California and lower-income states like Mississippi and Alabama. A 2021 [analysis](#) by Center on Capital & Social Equity explores how Congress might deal with differences among the states in setting a national minimum wage and minimize negative impacts such as job loss.

Karl Polzer is founder of the [Center on Capital & Social Equity](#), which explores inequality and advocates for “the bottom 50%.”